

FINANCIAL TIMES

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World news Business summary

UK aims for 1987 Channel link start

The British Government is aiming for a 1987 start on a fixed cross-Channel link between England and France.

Transport Secretary Nicholas Ridley is expected to give this deadline when he opens a full debate on the link today in the House of Commons.

He is likely to encounter strong opposition from both sides of the House. Mr Ridley will make clear that the British Government has made no decision on which of the four main contenders for the contract it favours.

Mugabe accusation

Zimbabwe Prime Minister Robert Mugabe accused South Africa of massing troops on the border, and declared his country stood ready to repel any invasion.

Post office blast

A bomb blast in a post office south of Dublin injured eight people. Police blamed the African National Congress.

No joint ticket

Philippines opposition spokesman Salvador Laurel dashed hopes that he would agree to share a ticket with Mrs Corason Aquino, widow of the opposition leader murdered in 1983, in presidential elections set for February. Page 2

Cerezo for leader

Voters in Guatemala were expected to elect Vinicio Cerezo, the Christian Democrat leader, as the country's president in yesterday's runoff election.

Guyana elections

Guyana voters go to the polls today in the fourth national election held since independence in 1966.

Gujarat arrests

Police in the Indian city of Ahmedabad arrested 11 protesters and increased security before today's planned strike over policies against minorities in the western state of Gujarat.

German spy swap

East and West Germany have exchanged convicted spies in the first stage of a swap involving other countries, including the Soviet Union, the West German newspaper Bild said.

South Asia links

South Asian leaders have boosted links between their countries with a newly formed association for regional co-operation. Page 2

Lennon vigil arrests

Moscow police arrested four people when they broke up a vigil of around 25 people commemorating the fifth anniversary of the death of former Beatle John Lennon.

Easier extradition

Britain is to relax its extradition rules to make it easier for foreign countries to recover suspects for trial.

Nobel questions

Joint winner of the 1985 Nobel Peace Prize, Yevgeny Chazov, was expected to face severe questioning about the plight of dissident physicist Andrei Sakharov when he arrived in Oslo for the award ceremony.

Marceau seriously ill

Mime artist Marcel Marceau is reported to be in a serious condition in a Moscow hospital where he underwent an emergency operation for a perforated stomach ulcer.

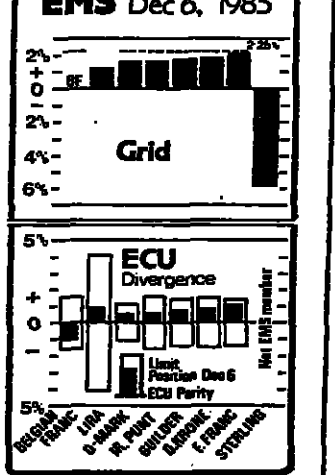
Bolivia sells ship

Bolivia decided to sell for scrap its navy's only ocean-going vessel because the ship was too expensive to maintain.

ITC's creditors prepare for claims

INTERNATIONAL Tin Council's creditors are amassing legal arguments for claims if efforts fail to resolve the world tin crisis, which has halted trading in the metal on the London Metal Exchange, and the issue ends up in court. Page 12

EMS Dec 6, 1985



German unit

lying weakness. The German unit was trading at a record high against the lira on Friday. The lira has now been overtaken by the French franc while the Belgian franc remains the weakest member. Further gains by the D-Mark will increase pressure on the weaker members and increase the possibility of another currency realignment.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the lowest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2% per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

ITALY'S 1985 current account deficit should be at least \$1bn lower than the \$7bn originally forecast, according to Bank of Italy Governor Carlo Ciampi. Page 3

ARGENTINA may get up to \$2bn

World Bank funds over the next two years as part of an increase in lending to Latin America envisaged in the Baker plan. Page 2

SINGAPORE Government is

continuing to promote efforts to rescue Pan-Electric, the debt-stricken marine and property group. Page 12

ISRAELI leaders will seek

France's backing in trade negotiations with the European Community when they confer with French External Relations minister Roland Dumas today. Page 12

THE WORLD'S first option on the

Eu has drawn respectable demand in its first two days of trading, fueling the European Options Exchange's battle against London. Page 15

SOUTH AFRICA is hoping for a

marked recovery of the rand against the dollar this week after the introduction of exchange controls measures which come into operation today. Page 2

DEUTSCHE BANK expects to offer

the three core companies in the Pick group for sale to investors possibly as early as March next year. Page 12

A TEXAS judge is due to decide

whether to confirm, reduce or set aside a controversial \$10.3bn damages award to Pennzoil over Texaco's successful bid last year for Getty Oil Company. Page 12

ULTRAMAR, the UK oil company,

is set to spend up to \$500m to buy oil exploration and production assets either in Britain or the US. Page 7

MOBIL OIL and the Canadian

Government have resolved a protracted dispute over official approval for Mobil's purchase of the Canadian assets of Superior Oil. Page 13

Distillers dismisses 'disloyal' bank in row over Argyll bid

BY MARK MEREDITH, SCOTTISH CORRESPONDENT

THE DISTILLERS Group, Britain's major whisky manufacturer, has dismissed the Royal Bank of Scotland as its main bank and accused it of great disloyalty for supporting the Argyll food group which last week launched an unwanted £1.8bn (£2.6bn) bid for Distillers.

The Royal Bank is to provide part of the loan financing for Argyll in its bid and Charterhouse Japhet, the Royal's merchant banking arm, is advising Mr James Gulliver, Argyll chairman.

Distillers said yesterday that the Royal Bank's rival, the Bank of Scotland, will take over as principal bank for the parent company and 26 group subsidiaries in Scotland and England with a combined turnover of £300m.

The Distillers board decided to switch banks on Friday, after banking with the Royal for more than 100 years.

Mr Ian Ross, managing director designate of Distillers' Johnny Walker group said yesterday: "The Royal Bank cannot have its cake and eat it. We would not be so naive as to accept the situation merely as the bank may have imagined. 'There was an act of great disloyalty'."

he said. The angry tone of the Distillers statement pointed to the aggressive stance the group wanted to assume in opposing Argyll.

"There are many misconceptions about the attitude and performance of Distillers. We want to make clear that we are not prepared to be pushed around by any of the parties involved in the bid," Mr Ross said.

A statement from Distillers said that the company had quietly prepared a determined and aggressive defence "that belied the group's previous low-key reputation."

The Royal Bank of Scotland had no immediate comment on the loss of a substantial client.

Earlier in the week Mr Charles Winter, general manager of the Royal, dismissed any suggestion of a conflict of interest over the Argyll bid. He said banks often found themselves on both sides of a takeover.

The banking changeover also shows the importance each side has placed in its Scottish connections.

The Distillers announcement may be a sign of the times for the banking sector, which has rarely seen any of its members dismissed like this. But with the formation of

New Delhi applies for Bhopal hearings in US

By Terry Dodsworth in New York

THE INDIAN Government has told a Manhattan court that damages claims arising out of the Bhopal gas disaster in India should be heard in the US because the relatives of the 2,000 victims of the fatal leakage could not receive a fair trial in their own country.

In a filing believed by lawyers to be unique, the Government said that courts in India are operating with a huge backlog, and that the Indian legal system does not have satisfactory procedures to deal with the kind of litigation involved in the case.

More than 150 damages claims involving a sum of over \$100m have been filed in New York against Union Carbide, the Connecticut-based company which ran the Bhopal plant. Product liability lawyers have chosen to make their main assault on the group in the US because of the conviction that the American courts would make higher awards to the victims than their Indian counterparts.

The federal district court judge in Manhattan who is hearing the case is due to make a decision on where to try the claims early next year. In a complex litigation struggle between the company, the private lawyers who have consolidated the claims of individual victims, and the Indian Government, Union Carbide has continuously pressed for a settlement in India on the grounds that that is where the accident took place.

The Union Carbide case is being closely followed by international companies because of its general implications in product liability law and the operation of overseas subsidiaries.

So far, the company's main strategy seems to have been aimed at taking the issue out of the courts altogether by the arrangement of a private settlement with the Indian Government. Although this solution to the problem has been rejected up to now, some lawyers believe that it is still a strong possibility, particularly if the Manhattan court refuses to hear the case.

There were also suggestions at the weekend that the Indian authorities were anxious to hear hearings located in the US because they themselves face litigation in India over testing and safety procedures. The other main issue emerging in the case is the question of responsibility for control of the Indian plant, in which Union Carbide held a stake of just over 50 per cent. According to the filing of the Indian Government, which had forced through the "Indianisation" of the plant, the US parent exercised control over the Indian subsidiary.

On System X itself, Mr Prior said development of it and subsequent systems would require extensive financial resources "which Plessey, by itself, is in a far weaker position than GEC to provide."

He suggested that a GEC takeover of Plessey would yield important benefits in defence electronics as well. "Integration of our businesses can eliminate wasteful duplication in R&D and provide the Ministry of Defence greater value for its expenditure in this field."

Lex, Page 12

GEC plans to go ahead with offer for Plessey

BY IAN RODGER IN LONDON

THE GENERAL Electric Company of the UKINTEC launch its proposed £1.8bn (£2.75bn) takeover bid for Plessey as early as today.

Mr James Prior, GEC chairman, wrote to Sir John Clark, the chairman of Plessey, at the weekend that Plessey's counter-proposal to take over GEC's interest in the System X telephone switching system, was "unacceptable."

GEC's intention was therefore to proceed with an offer to the Plessey shareholders as soon as possible. He said the bid would be on the lines indicated by GEC last Tuesday, that is, valuing Plessey shares at 100p each.

Mr Prior used the letter to argue that the takeover would be a "constructive and significant step" towards improving the prospects of the entire UK electronics industry.

He said GEC had long been convinced that a more radical solution than that proposed by Plessey was "urgently needed" to the problems currently confronting not only telecommunications but indeed the entire electronics industry in the United Kingdom.

"We believe your view of the prospects of achieving significant profit

growth in the years ahead, as expressed in your public announcement, is unduly optimistic. In overseas markets, you and we, as separate companies, are million players at best. As a fully integrated business, we can start to make some impact in Europe and the US where both our achievements so far have been limited."

Mr Prior recalled that GEC and Plessey ranked eighth and eleventh respectively in the world telecommunications equipment industry last year, behind more established AT&T, GTE and ITT of the US, Siemens of West Germany, Nippon Electric of Japan and Northern Telecom of Canada.

He said the arguments for integrating the public switching operations of the two companies were well understood, but there were equally strong arguments for bringing together their interests in other types of telecommunications equipment.

In transmission, British Telecom, the leading UK customer, was seeking a more close-knit relationship between its suppliers before committing itself to the use of optical

technology in the local network and into subscriber premises.

In private systems, the concentration of resources by UK producers on a new PABX (private automatic branch exchange) was necessary for success in world markets. In subscriber equipment, amalgamation would provide the best opportunity for successful competition against imports and for expansion of exports.

Moreover, all sectors of the business were becoming more interrelated and so any sale by GEC of its interest in System X would weaken the group's overall telecoms capability.

On System X itself, Mr Prior said development of it and subsequent systems would require extensive financial resources "which Plessey, by itself, is in a far weaker position than GEC to provide."

He suggested that a GEC takeover of Plessey would yield important benefits in defence electronics as well. "Integration of our businesses can eliminate wasteful duplication in R&D and provide the Ministry of Defence greater value for its expenditure in this field."

Lex, Page 12

UK Cabinet still divided on European rescue for Westland

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT, IN LONDON

DIFFERENCES between UK Defence Secretary Mr Michael Heseltine and Mr Leon Brittan, Trade and Industry Secretary, over whether the future of Westland, the financially troubled helicopter company, should be secured through an all-European effort or by links with a US conglomerate remain unresolved despite formal Cabinet meetings on the issue last week.

The differences are being seen as a serious obstacle to the speedy resolution of Westland's immediate difficulties.

The company's preliminary results for the year ending September 30, which were due this week, look like being delayed at least until next week while the board seeks clarification of government intentions.

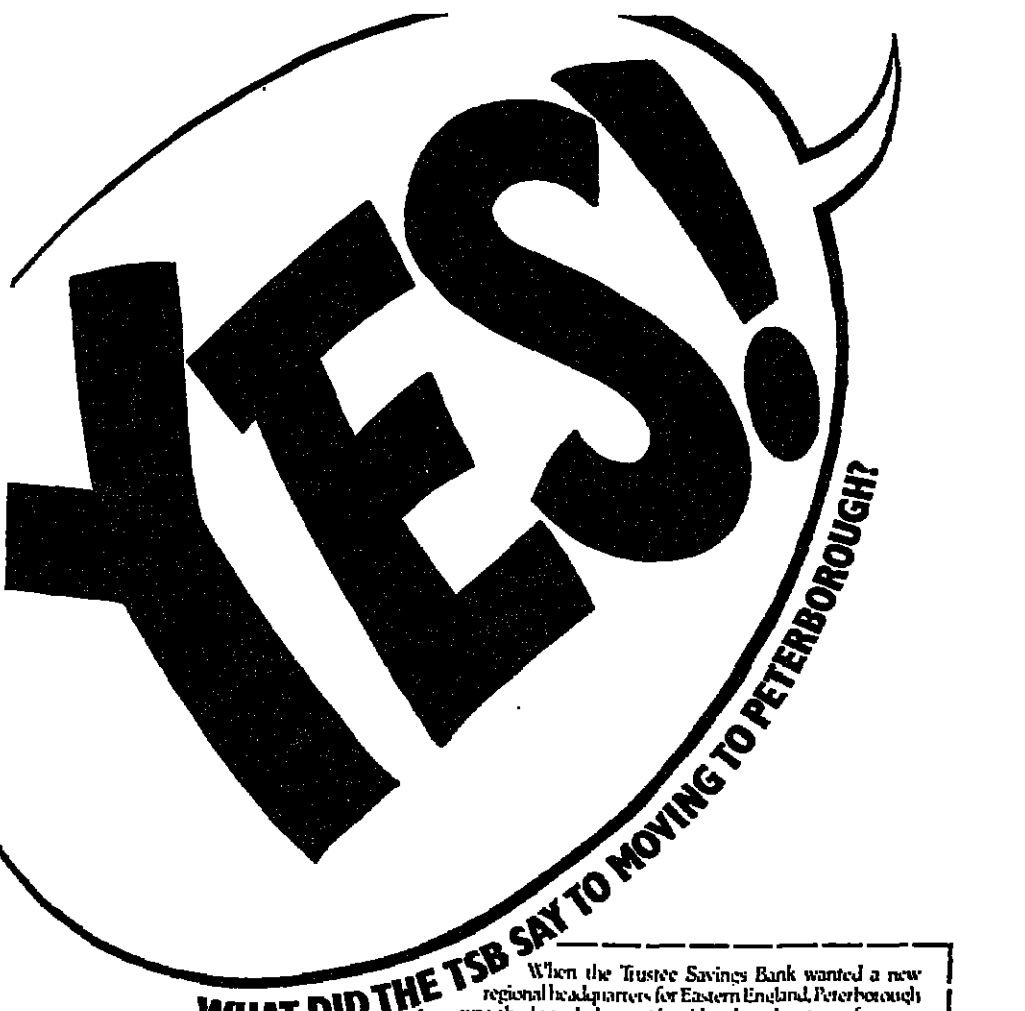
The Government apparently remains adamant that there is no question of direct aid to bail out Westland. But while Mr Heseltine favours a solution involving the buy-out of a minority shareholding in the company by three European

helicopter concerns, Mr Brittan believes strongly that Westland should be left free to pursue the solution it favours: links with Sikorsky, the US subsidiary of United Technologies.

After encouragement from Mr Heseltine - who believes that the Westland dilemma presents a unique opportunity for rationalisation of overcapacity in the European helicopter industry - Aerospiale of France, Messerschmitt-Bölkow-Blohm of West Germany and Italy's Agusta, made a formal proposal to Westland, that was discussed by representatives of the companies and Westland last week.

The European proposal is backed by a memorandum of understanding that was drawn up by the armaments directors of Britain, France, Germany and Italy 10 days ago. In it, the governments agreed that in future they would buy only European helicopters and would rationalise the range of helicopters to be produced.

Sir John Cuckney, who since



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Belgrade in bid to revive foreign exchange market

BY ALEKSANDAR LEBL AND DAVID BUCHAN IN BELGRADE

YUGOSLAVIA'S political establishment has finally reached agreement on how to try to revive the country's defunct foreign exchange market, and to stop companies from illegal trafficking in hard currency. This controversial measure, hotly debated all this year by Yugoslavia's republics and provinces, was one of the economic reforms which received final legislative approval over the weekend. The other laws govern changes in import regulations and external credit relations. Agreement on the new foreign exchange law came after the country's two most export-oriented republics, Croatia and Slovenia, dropped under political pressure to obtain a consensus—their objections to the new law's requirement that exporters sell 100 per cent of their earnings into the foreign exchange market. Many sceptics—the International Monetary Fund is believed to be among them—fear the 100 per cent surrender requirement will reduce incentives for exporters, while the new foreign exchange market will be so arranged that it will be far less flexible than the existing "grey market" in hard currency.

Lower Italian current account deficit forecast

BY ALAN FRIEDMAN IN MILAN

ITALY'S 1985 current account deficit should be at least \$1bn (£714m) lower than the £12,000bn (£4.5bn) originally forecast, according to Dr Carlo Ciampi, governor of the bank of Italy. The central bank chief, speaking at a Rome conference of European savings banks, did not, however, offer a precise figure for this year's likely current account deficit. Dr Ciampi also said that a further devaluation of the Italian currency, following last

summer's realignment of the European Monetary System (EMS), was not imminent. The lira was devalued by 8 per cent against the European currencies in July. "The measures already taken have been necessary and sufficient," the governor explained, adding that the outlook for the Italian currency was much improved. Dr Ciampi expressed a note of cautious optimism on the prospects for a decline in the Italian inflation rate.

Buddhist temples go on strike in Kyoto

By Carla Rapoport in Tokyo

TOURISTS to Kyoto, the city with one of the most beautiful collections of Buddhist temples in the world, are to be sadly disappointed. Twelve of the most celebrated temples have gone on "indefinite strike."

According to the Kyoto Buddhist Association, the Kyoto priests are protesting against an imposition of a municipal government tax on admissions fees of ¥30 (\$0.25).

"The temples are still open to believers," said the Association's public relations representative yesterday. "But no tourists will be allowed in. We expect we will be closed through the New Year."

Admission fees to the Kyoto temples at present range from around ¥300 to ¥300. The priests say that the extra ¥30 is "morally wrong" and will hurt the chances of the "ordinary people" who want to visit Kyoto's holiest and most beautiful shrines.

Spared by the bombs of World War II, Kyoto has well over 1,000 Buddhist temples, many of them officially designated as national treasures.

Among those now closed are the Golden Pavilion and the Temple of the Silver Pavilion, the former villa of Shogun Ashikaga Yoshimasa, which was built in 1482.

The strike could damage Kyoto's economy if it lasts for more than a few weeks. Tourism accounts for about 25 per cent of the city's income.

The priests are pressing the city government to let them make a "contribution to the city coffers, but not pay taxes directly. Some observers claim that the priests prefer the contribution method because it saves them from disclosing their total income to government authorities.

Meanwhile, the priests said that traditional Buddhist ceremonies will continue to be observed. But Kyoto tourists will have to make do with the less-famous temples for the time being.

Brussels to boost high-tech links

BY OUR BRUSSELS STAFF

INDUSTRIES and universities are to benefit from a new European Community scheme to promote high technology co-operation.

EEC Ministers of Social Affairs have agreed a plan, costing Ecu55m (£39m) over four years, to provide funds for students seeking to work in industries such as computer science and electronics in a Community country other than their own.

The aim is to foster cross-fertilisation between academics and industry while promoting a European, as opposed to an exclusively national, approach to high technology.

The Comett programme—the Community in Education and Training for Technology—is intended to benefit up to 10,000 students with fellowships to

spend six months in industry. It is also planned to finance exchanges for employees in industry and university staff in the same field, both for teaching and research.

The programme was approved by the Council of Ministers in record time—under six months from the first proposal from the European Commission to its agreement last week—although it is still subject to a West German query on finance.

The budget of Ecu55m compares with an original target of Ecu80m, and the Ministers also scaled back its duration from seven years to four.

Mr Peter Sutherland, the Irish Commissioner responsible for social affairs in the Commission, said the programme provided "a new dimension in Community action in the area

of higher education and industry. Individual companies and universities have shown their support and given specific commitments, he said.

The scheme fits into the pattern of EEC activity in promoting high technology, as exemplified by Esprit—the pre-competitive research and development programme for information technology, designed to make European industry more competitive in the face of the perceived threat from the US and Japan.

The first phase of the Comett programme will concentrate on five main areas:

- The development of a European network of university-industry partnerships;
- The launching of Community

exchange schemes between university and industry, involving students as well as academic and industrial staff;

- The design, development and evaluation of specific joint training and re-training projects involving high technology;
- The promotion of joint efforts between university and industry over university programmes;
- Setting up an EEC data base on industry/university co-operation.

The plan is intended to meet complaints from industry about the lack of a more broadly-based approach by graduates. Companies will be able to demonstrate their needs to students undergoing training, and gain access to university research facilities.

Malaysia acts to step up oil exploration

BY WONG SULONG IN KUALA LUMPUR

MALAYSIA has announced payment to the Government as royalty, the remaining "profit" oil would be split between the foreign contractor and Petronas, the national oil company.

For the first 10,000 barrels a day, the split will be 50:50. For the next 20,000 barrels, the split will be 60:40 in favour of Petronas. If production exceeds 20,000 barrels, the division will be 70:30 in Petronas' favour.

Under existing contracts, "profit" oil is split 70:30 in favour of Petronas' favour, and 65:35 in the case of gas.

The production-sharing terms were revised because it is generally believed that new oil and gas finds in Malaysia are likely to be comparatively small, and foreign oil companies would not be attracted under the current terms.

Petronas is shortly expected to invite foreign contractors to take up three new concession areas under the revised terms. recovery cost and 10 per cent

Baldrige hopes to clinch contracts in Moscow

THE US Secretary of Commerce, Mr Malcolm Baldrige, arrived in Moscow yesterday for a three-day trade mission attended by some 400 US businessmen, hoping to use the spirit of the Geneva summit to clinch new contracts with the Soviet Union, AP reports from Moscow.

Mr Baldrige is attending the trade mission which starts today because the Reagan Administration views trade as "a very good building block for our relations."

In the past, President Reagan has drawn sharp criticism from the Kremlin for his trade policies, including restrictions on imports of high technology, and his 1983 embargo on imports of US technology to build a Siberian natural gas pipeline.

Mr Vladimir Sukhovo, the Soviet Deputy Foreign Minister, and Mr Baldrige expressed hope that superpower trade will increase as a result of this week's

US seeks to speed trade row accords

By William Dullforce in Geneva

THE US wants a "quantum leap" improvement in the machinery for settling international trade disputes, Dr Clayton Yeutter, US Special Trade Representative, said yesterday. This would be one of its priorities in the global trade negotiations scheduled to start next year.

The 16-year, unresolved dispute between the US and the European Community over citrus fruits and pasta illustrated the kind of unfair trade practices that Americans would not tolerate, Dr Yeutter said.

He warned that just because President Ronald Reagan appeared to have contained US protectionism for the time being, it should not be taken as a signal by any country that it could let up on its obligation to remove unfair trade barriers.

The US had become "more confrontational" in the past few months over unfair trading, Dr Yeutter added.

It was also imperative to deal with the problem of export subsidies in the next round of talks, Dr Yeutter said in a prepared speech to the EMF Foundation (formerly the European Management Forum) in Geneva.

An economic trauma had been created in sugar-exporting countries when subsidised European sugar caused world prices to plummet to 3 cents a pound earlier this year.

European countries and Japan had to take a much larger share of the exports of the least developed countries, if a political explosion was to be avoided, Dr Yeutter said.

The US could not continue to provide the largest part of these countries' foreign exchange earnings which were indispensable in managing their crushing debt burdens.

World Economic Indicators

		UNEMPLOYMENT			
		Nov. 85	Oct. 85	Sept. 85	Nov. 84
UK	000s	3,258.7	3,277.9	3,244.2	3,222.6
	%	13.5	13.5	13.5	13.3
US	000s	8,291.0	8,274.0	8,127.0	8,367.0
	%	7.1	7.1	7.0	7.3
W. Germany	000s	2,146.8	2,151.6	2,216.6	2,144.5
	%	8.0	8.0	8.2	8.2
France	000s	2,504.9	2,436.2	2,309.9	2,515.6
	%	10.8	10.5	9.9	10.8
Italy	000s	2,982.7	2,938.4	2,854.0	2,747.2
	%	13.1	12.9	12.5	12.0
Netherlands	000s	743.4	757.4	776.7	802.6
	%	13.1	13.3	13.7	14.1
Belgium	000s	552.8	567.0	567.8	622.2
	%	13.4	13.7	13.8	15.1
Japan	000s	Aug. 85	July 85	June 85	Aug. 84
	%	1,480.0	1,450.0	1,530.0	1,590.0
		2.5	2.4	2.7	2.7

Source (except US, UK, Japan): Eurostat

SHIPPING REPORT

Laid-up tanker tonnage falls

Financial Times Reporter

WORLD laid-up tanker tonnage fell by 4m deadweight tons to 46.7m dwt in October, according to the General Council of British Shipping.

This welcome reflection of the increased rate of scrapping in recent months comes after a period of more than a year during which the laid-up tanker tonnage had been stable at around the 50m dwt level.

Laid up dry cargo tonnage was down 8 per cent in October to 11.8m dwt.

Meanwhile, in the tanker market, activity eased as oil prices declined.

However, rates have been maintained in nearly all areas, and Calcutta is optimistic that the current going rate of Worldscale 35 for 250,000-ton ships from the Middle East to Europe will hold into the new year.

In West Africa, a 120,000-ton vessel was fixed at Worldscale 45 for Europe, and a 65,000-ton one went to the US at Worldscale 85.

A 50,000-ton tanker from the Caribbean to the US went at Worldscale 100, and a 65,000-tonner went to the US from the North Sea at Worldscale 85.

In the bulk carrier markets, grain rates were unchanged but the ore market has produced increases in all trades.

Shippers continue to form the backbone of the sale and purchase market. A Hong Kong-based owner has sold the products sister-ships Eastern Thistle and Cape Thistle, about 30,000 dwt, built in Japan in 1982, to Greek buyers for a total of \$15.3m (£10.9m).

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MANAGEMENT

AT THE Ngau Tau Hok exchange in Hong Kong dozens of young female operators sit at old-fashioned wood-framed switchboards taking hookings for calls to mainland China. Such is the demand that a caller can wait five hours or more for a connection.

When direct dialling was introduced between Hong Kong and Guangdong province, the telephone traffic between the two doubled in just two months. Unsurprisingly, Cable and Wireless, which runs both the internal and external telecommunications in Hong Kong, is very enthusiastic about the potential growth in the still small amount of telephone traffic to China; it is more than doubling every year.

The success of its activities in Hong Kong has been the main force behind C & W's recent rapid growth. It accounts for the great majority of C & W's business in the Far East which in turn represents 52 per cent of turnover and 70 per cent of group profits. In the four years since it was nationalised, C & W has more than doubled its turnover and nearly quadrupled its profits.

This is all the more remarkable for a company which, until recently, was regarded as rather sleepy and bureaucratic colonial leftover. "The ideal manager used to be someone who could live happily on some distant island, keep his clean and the governor happy," says one City analyst.

Now, though, the task the company faces is to change its management style as rapidly as the markets in which it is seeking to build its future are themselves changing.

C & W will briefly go into the record books for making the world's second largest private share offering after British Telecom before it is usurped next year by the sale of British Gas and British Airways. Some £133m is being raised by the sale of the Government's remaining 22.7 per cent stake and an opportunistic rights issue by the company.

C & W's largest activity by far is operating under franchise the internal or external telephone systems of small countries around the world. Usually former British colonies. These are invariably monopolies but the company is venturing into much more competitive waters as it strives to become the world's first global telecommunications carrier.

The strategy is to develop telecommunications networks in three main areas of the world — the Pacific Basin, the UK and the US. The great attraction of this plan is the large volumes of highly profitable intercontinental business traffic C & W can generate by linking



C & W plugs into commercial reality

Jason Crisp explains the international ambitions of the UK-based telecommunications group

those areas with high-speed digital communications via satellite or submarine cable. To achieve this ambitious global strategy C & W will have to make substantial investments as well as proving itself in much more competitive and less regulated markets than it is accustomed to.

There are a number of people who still question whether C & W will be able to make the change. While the company likes to be seen as a dynamic concern with a fleet-footed management taking advantage of a unique position in the world's telecommunications, others see it as a more pedestrian company run by engineers. One director admits C & W used to be a highly centralised company of technical managers in the field backed by an army of clerks.

Sir Eric Sharp, who became chief executive shortly before C & W was privatised in 1981, says entrepreneurial thinking had become ossified while it was a nationalised industry. "There was a lack of commercial sensitivity, a lack of ideas, a reluctance to exploit the potential opportunities or identify gaps in the company's strategic position."

Managers are now under considerably greater pressure to perform and meet agreed targets. If there is not a good reason then those who don't are likely to be dismissed to some unenviable post or worse. One former employee describes C & W as an unhappy ship. However, Sir Eric says: "I am very confident that we have got all that

cultural change—and in some cases shock—behind us. "The trouble was we looked after our employees a bit too well," acknowledges a senior executive in Hong Kong. "For example, if someone moves posts we organise everything from the house to the servants and the children's schooling. It's not an environment which encourages people to take responsibility or risks."

Sir Eric adds that changes in senior management, decentralising and judging managers by their performance has resulted in an entrepreneurial spirit percolating down through the group.

C & W's global ambitions as a telecommunications carrier have largely been inspired by Sir Eric Sharp who joined the company as chairman in 1980 from Monsanto and became chief executive the following July.

Sir Eric is 66 and is described by employees and outsiders as autocratic and impatient. He is seen as such a forceful figure that C & W is sometimes criticised for being a one-man company which could have a succession problem. However, this year Brian Pemberton, more than 20 years his junior, who ran the vital Hong Kong operations, returned to London as chief operating officer and is tipped as the likely next chief executive.

Many observers expect someone else with greater skills at dealing with the City and foreign governments to be appointed as chairman. As one commented: "The company

clearly needs a career diplomat at the helm."

As a result of Sir Eric's strategy, C & W is expanding its operations in the Pacific Basin, most notably in China, and is looking for ways of entering the Japanese market.

Its main source of profits comes from Hong Kong where its 80 per cent owned subsidiary has a franchise to provide the colony's external communications. Since privatisation it has also bought a 79 per cent stake in Hong Kong Telephone Company (Telco) which provides the internal services.

As the third largest financial centre in the world with the second highest telephone density in Asia after Japan, Hong Kong has substantial telecommunications traffic which has been growing at about 25 per cent a year—double that of most advanced countries.

In addition to being the company's largest source of revenues and profits Hong Kong has also been the springboard into China where it has several joint ventures and projects. Demand for communications between the two have grown rapidly as about 17 per cent of China's international trade is funnelled through Hong Kong.

The UK's Chinese engineers give C & W an enormous advantage over other telephone administrations competing for work in China, including BT. Its most successful operation to date is its 49 per cent stake in the Shenda Telephone Company. This operates in Shenzhen which borders Hong Kong and is the largest of the five Special Economic Zones in China. Less

successful has been its other joint venture, the Huaying Oil Telecommunications Service company which provides special communications for the oil industry in South China. The problem is a result of the poor level of oil and gas discoveries in the region.

Potentially its most important activity in China is the Yangtze Delta project where C & W is completing a technical study of the telecommunications needs for an area with a population of over 100m people including Shanghai. This is likely to lead to another joint venture between C & W and the Chinese which could have enormous potential.

A further opportunity is in Japan where some of the Government's shareholding is to be placed and C & W is to seek a quotation.

Britain. The UK not only has the largest financial centre and the most multinational headquarters in Europe, it also is the only European country likely to allow competition on the network in the near future.

C & W has brought forward its investment plans for Mercury, which competes with BT to provide telephone services in the UK. Mercury was originally a joint venture with BP and Barclays Merchant Bank when it acted more like a traditional telecommunications monopoly and talked of breaking-even in 1990. Since it bought out its partners C & W has changed almost all the management, greatly broadened its activities with the Government's blessing

and brought forward its investment plans. It expects to be in profit by 1987. Mercury is spending £300m in an advanced digital network which will start offering a dialled national and international telephone service to the country in the middle of next year.

The US. Competition in the US is so fierce that many carriers are losing money and it is likely to be the most difficult for C & W. But it is also the most vital funnel for C & W's international network.

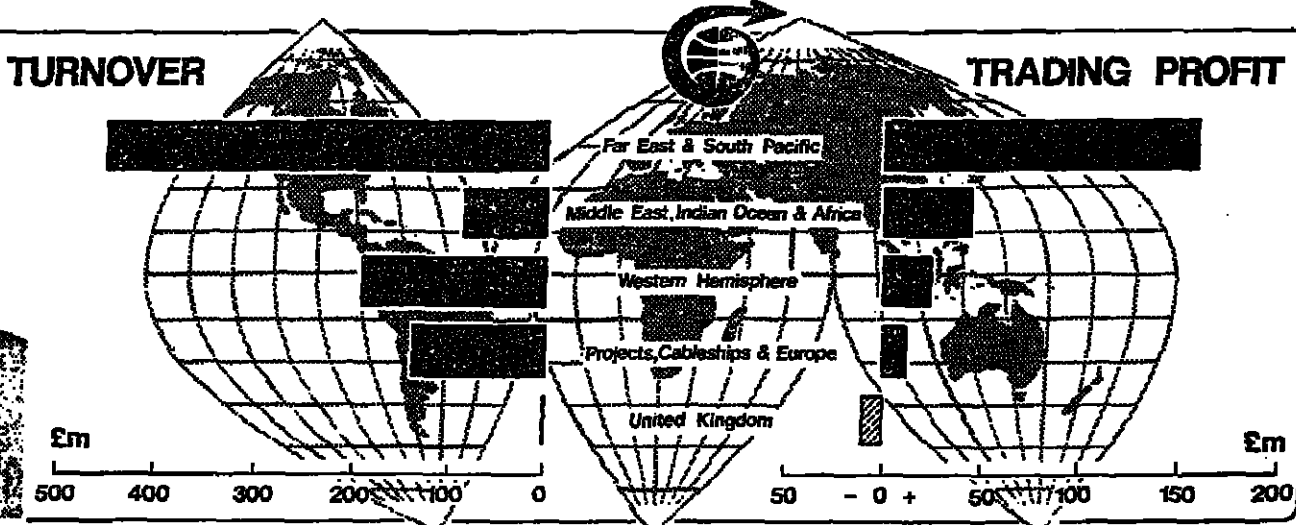
Cable and Wireless's plans in the US, the third leg of its global strategy, are the most vague although the company says this is because it is being very cautious. Current operations have sales of about \$145m, according to estimates by stockbrokers James Capel. The largest is IDN, which provides a "least cost call routing" service to small and medium sized businesses by automatically switching telephone calls via the cheapest long distance carrier.

C & W is also building and leasing transmission capacity on a number of optical fibre cables in the east of the US including Washington to New York and in Texas between Dallas, Houston and Fort Worth. It plans to acquire 1,000 miles of optical fibre in the US. Although competition is particularly fierce through overcapacity and many carriers making a loss, Sir Eric deems will just be a funnel for the international network. "The objective is not to have a loss leader in the US. It will have to be a profitable operation on its own."

One of C & W's most ambitious plans is to lay two transatlantic fibre optic cables costing a total of \$600m in a joint venture with a US group. They will be the world's first private submarine cable systems to compete with those laid by the national telephone administrations.

Clearly many of C & W's activities face political risks ranging from a sudden change in government in the UK to the possibility that a Labour government in Britain might take some action against Mercury. The US is probably the one area where the political risk is most slight but it is where competition in telecommunications is becoming cutthroat.

The strategy to become a world carrier will eventually dilute C & W's exposure to actions of one country, notably China. It is a bold plan. The big question is whether Cable and Wireless's management style has changed sufficiently to pull it off.



Management abstracts

Principles of Finance. Kent, February 27. Fee: £50. Details from Sandridge Park Mansions from Sandridge Park Mansions, Kent. Tel: 01-460 3883.

Supervision—an introduction to managing people. London, February 5-7. Fee: members £230, non-members £280. Details from Ashridge Management College, Berkhamstead, Hertfordshire. Tel: 044384 3491.

The fundamentals of finance and accounting for non-financial managers. Brussels, February 10-14. Fee: members £200, non-members £250. Details from European Study Centre, rue Carole 15, R-1040 Brussels. Tel: 32/2/516.19.11. Telex: 21.917.

International technology joint ventures. London, February 11-12. Fee: £431.25. Details from Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 01-242 4111.

Double tax relief for corporate activity and ownership. Zurich, February 20-21. Fee: ESC members £380, non-members £400. Details from European Study Conference, Kirby House, 21 Rutland Street East, Uppingham, Rutland LE15 9PY. Tel: 0572 822 711.

Quality systems—design and implementation. Bradford, February 26. Fee: £120. Details from the Bradford Management Centre, Heaton Mount, Keighley Road, Bradford, West Yorkshire BD9 4UT. Tel: 0274 42499.

Applying decision technology. Uxbridge, February 27-28. Fee: £225. Details from Brunel University, Uxbridge, Middlesex UB8 3PH. Tel: 0895 56461.

Business courses

Law of buying and selling. London, February 6-7. Fee: £31.25. Details from Miss J. K. Van Vliet, Seminar Division, Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 01-242 4111. Telex: 596527 YACS G.

Computers in insurance/The risks of computers. London, February 25/26. Fee: (for each conference) £175 plus VAT. Details from Mavis Gold, International Business Communications, Bath House (3rd floor), 56 Holborn Viaduct, London EC1A 2EX. Tel: 01-236 4080. Telex: 588570.

TECHNOLOGY

Shock tactics for materials

David Fishlock reports on how nuclear experimental techniques may lead to novel electrical substances

STRANGE THINGS happen when ordinary substances are subjected to extreme shock. Gases begin to behave like liquids and liquids like solids, appearing, turning into a "rigid void," as the experimenters say. Water acquires a good electrical conductivity.

Shock can also force metals into unaccustomed crystal structures; patterns it has not been possible to obtain by other methods, with intriguing new properties. It opens opportunities for making superconducting materials which lose their electrical resistance at higher temperatures than those used now, perhaps even as high as room temperature; and supermagnets more powerful than any at present.

Shock, in this context, means subjecting the material to an impact at up to 10 kilometres a second—the speed of a ballistic missile, about 20,000 miles per hour. "Everything happens very quickly," says Harry Radovsky, a physicist with Lawrence Livermore National Laboratory in California, one of a handful of research centres

with the facilities to shock-process materials. It is one example of a nuclear weapon experimental technique which may lead to novel electrical and electronic materials. These laboratories are equipped with the kind of "gun" described in the accompanying box. It fires a flat projectile at the material to be shocked, which is mounted in a strong steel containment to prevent it simply being blown to smithereens by the impact. The shock wave which passes through the material creates extremely high temperatures and pressures, for very brief periods.

The big difference from experiments in squeezing materials at very high pressure, in a diamond-anvil press, is the accompanying temperature changes. The gun is now reaching the same kind of pressures as the press.

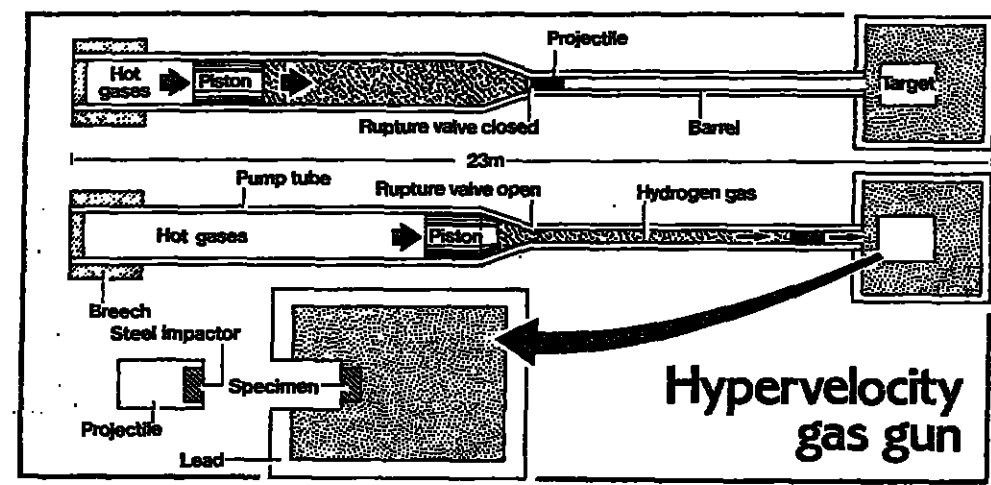
The extremes of temperature

and pressure last for less than one millionth of a second. The cooling rate—quench rate—is correspondingly rapid, up to 1bn deg. C per second. At slower rates they simply fade into an equilibrium structure with much less exciting properties. Two valuable properties which are particularly dependent on defects in the crystals are superconductivity and magnetism. Russian and US scientists have reported making a new "high-temperature" superconductor with shock waves—even materials which are superconducting at room temperature. They used high explosives, how-

ever. "A shock wave is a moving discontinuity in pressure, energy and density," says Dr Radovsky. The Lawrence Livermore team, led by Dr William J. Nellis, finds that, with its gun, it can vary the main parameters such as pressure, temperature and duration of the shock to explore what may be a new class of metastable superconductors.

They are particularly excited by the idea of working with very thin films of superconductor—niobium coatings only 10 microns thick, on copper. This is a big step closer to a commercially realistic superconductor.

One goal is a superconductor which will retain its properties in the presence of very high magnetic fields. Shock-synthesised niobium specimens have been transformed from structures having large crystals of no particular alignment into highly deformed structures of parallel to the shock front. This is precisely what the researchers are seeking to provide enhanced magnetic properties.



THE LAWRENCE Livermore "gun" was built by General Motors in 1971, for studies of such materials as nuclear explosives and nuclear fuel pellets for laser fusion experiments, which are exposed to extremely high temperatures and pressures. A heavier version is used to study problems of atmospheric re-entry for space vehicles.

It consists of a breech into which is packed 1.35 kg of gunpowder, a pump tube filled with hydrogen, and a barrel from which the air is pumped out. Hot gases from the gunpowder drive the piston into the pump tube, compressing the gas to a

point where the rupture valve opens and the 20-gram "shell" is fired at the target at up to 8 km per second. The target is a few grams of the substance to be shocked. Many materials of special interest here are friable and liable to be blown to dust. So the specimen is sunk into a steel fixture which in turn is encased in lead. After the hypervelocity impact, the lead envelope is found to have ballooned away from the steel.

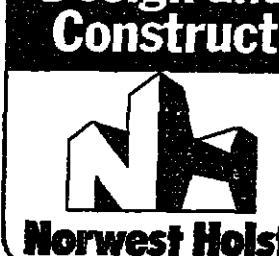
The shock-wave in the specimen is machined away, to release the specimen. The gun produces a double shock wave. The first one

sweeps across the target, and is reflected from its back surface, so that a pressure rarefaction wave travels back through the material. The result is a higher compression and temperature in the material.

The specimen itself emerges flattened, splayed to twice its original diameter "with all the grains squashed in one direction," one researcher says.

Lawrence Livermore's hypervelocity gun is operated as a research facility for the laboratory, and made available to researchers at Stanford University and the University of California.

Design and Construct



Radiation detection automated

PEOPLE WHO may be at risk from exposure to gamma or X-ray radiation could be helped by a detection system sold by Wallace, of Newbury.

In the company's range of Alnor hardware, details of radiation doses recorded on pocket-sized dosimeters are fed into a computer system. This can be done as a person enters and leaves a work area, be it nuclear plant or hospital laboratory.

The data is correlated with personal details, which records the degree to which an individual has been exposed to previous high radiation levels.

The system will sound an alarm if the amount of radiation to which a specific person is subjected has risen above an accepted pre-set level.

Cosser to aid Prosat project

COSSOR ELECTRONICS of Harlow is to aid a European programme to research techniques for satellite communications. The company has won a £950,000 order from the 11-nation European Space Agency to build a satellite receiver for use in the agency's Prosat project.

In Prosat, engineers will experiment with methods to send signals to satellites so the space craft can provide links with mobile units such as cars, ships and aeroplanes.

The Cosser receiver will use digital signal-processing techniques to squeeze a lot of messages into a small radio band and to maintain signal strength.

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Paragon says they often achieve savings of 25 per cent compared with traditional methods. Conventional methods involve ordering and supervising the printing of individual components, often from separate suppliers, followed by delivery, storage, adding variable data, detaching, matching, folding, inserting, addressing and mailing.

With Matched Mail, the exact number of items for a complete mailing come off the machine into security mail boxes ready for Post Office collection.

The system combines computer control with modern ink jet printing, in which tiny drops of electrostatically charged ink are accurately attracted by deflection plates on to the paper, forming characters.

Matched Mailer's computer is controlled by magnetic tape containing the mailing list and all the other variable informa-

tion. For example, an insurance company mailing might need to show each recipient's age, occupation and family size, with details of a specific insurance plan as it would apply individually.

The non-variable part of the mailing is printed first on special webs. A range of different papers and paper colours can be used with four ink colours. A wide range of sizes is possible.

The pre-printed webs then pass through the ink jet system which adds the variable data from the control tape.

There is no danger that the components of the mailing (up to six) are separated—the envelope is formed around them immediately after they are cut and folded. Completely closed rather than window envelopes are constructed and reply envelopes are formed in the same way.

More on 01-828 9022.

G.C.

Battery designs examined

SANDIA National Laboratories, which is operated for the US Energy Department by AT & T Technologies, is looking at several new re-chargable battery designs that could prove invaluable in electric vehicles, in levelling demand in the electricity supply industry and in storing the output of solar cells for providing regulated supplies of power.

Two particular pairs of chemicals look promising: sodium/sulphur and zinc/bromine. These are highly active combinations that produce good power to weight ratios, but are difficult to engineer into battery enclosures.

However, Dr Nicholas Magan of Sandia believes the two projects will lead to the production of a 50kw advanced battery modules that could yield eventual commercialisation.

For example, a contract with Ford Aerospace and Communications Corporation has just been concluded under which a 75kw stationary sodium/sulphur battery system operated success-

fully for 675 charge/discharge cycles over 32 months.

Recently, Chloride Silent Power in the UK was awarded a long term multi-million dollar Energy Department contract to continue work which has been in progress at Buncorn for more than 10 years. The objective is to produce a 50kw battery for stationary applications. Such a unit might run a small house in the summer for two days.

The British module will employ a "unique and advanced" cell design and will be the basis of a 500kw stationary battery to be built under a complementary contract between Chloride and the Electric Power Research Institute in California.

This large battery is to be tested at the Battery Energy Research Institute in Hillsborough, New Jersey, in 1990. The results are expected to guide development of units up to a 100Mwh. At this level, it becomes possible for electricity authorities to use their generating capacity throughout the night when demand is low,

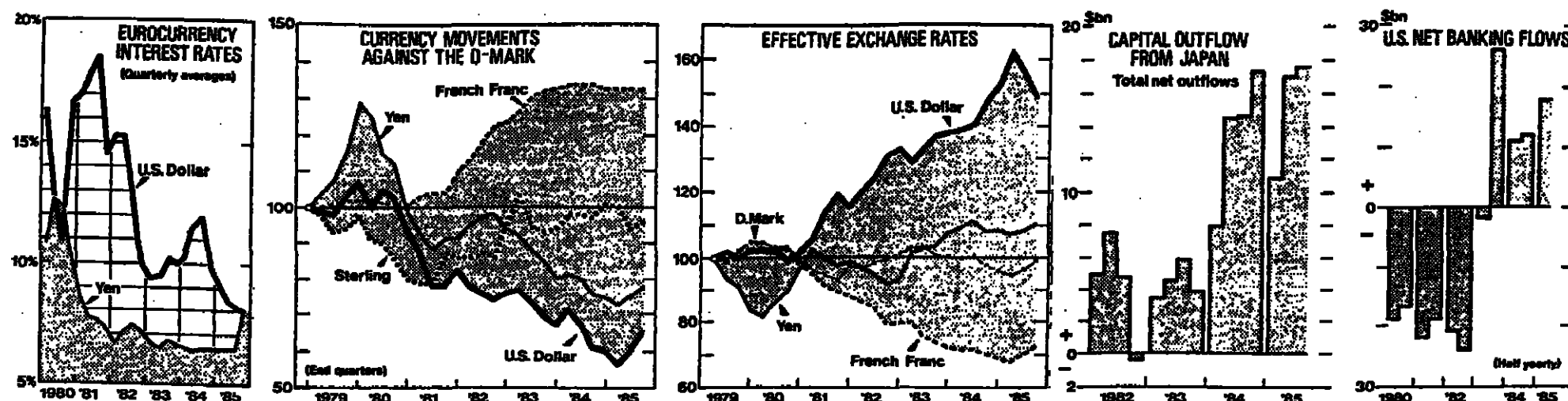
to store energy and then release it from batteries during the day at times of maximum demand. This obviates the need for "peak" generating capacity which might only be used for a few hours in 24.

The department also has contracts with Exxon Research and Engineering under which a zinc/bromine unit has been successfully fitted inside a Ford test vehicle. A new contract placed by EPRI with Energy Research Corporation, of Danbury, Connecticut, calls for production of a 50kw unit that will be a building block for a new 500kw battery scheduled to be ready for testing by 1989.

Sandia is also looking at hydrogen/nickel which can be highly reliable, maintenance free and long lived. It would be particularly useful for storing the output from unattended solar cells systems, but is very expensive.

STATISTICAL TRENDS: CURRENCIES

5



US dollar makes orderly but swift retreat

AFTER four years of steady growth against the European currencies the US dollar faltered early in 1985. Since then it has made an orderly though swift retreat. In early March it peaked against the D-Mark and against sterling at DM 3.4 and \$1.066 (weekly averages). Since then, despite occasional rallies, it has fallen to around DM 2.50 and \$1.50.

Against the yen, the rise of the US dollar was not so dramatic between 1981 and 1985. Although the dollar rose from around ¥202 at the beginning of 1981 to ¥250 in March 1985, there was a long period of yen recovery between October 1982 and June 1984 from ¥270 to ¥230. Since March 1985 the yen has strengthened considerably to ¥202.

The yen was the currency that appreciated most after the meeting on September 22 of the finance ministers and central bankers from the five leading industrial countries (the Group of Five).

The sharp movement against the dollar reflected strong intervention led by the Bank of Japan and the US. Central banks of the three leading European countries also intervened in the market.

Since the meeting other currencies have extended the gains made in the previous six months but without any dramatic change in trend.

The decline of the US dollar in 1985 has occurred against the background of a general slowdown in economic growth in the US and

a fall in US interest rates. The 3-month Euro-dollar rate (monthly averages) has dropped from 12 per cent in July 1984 to 8 per cent in November 1985. Meanwhile, the 3-month Euroyen rate which remained steady from July 1984 until September 1985 has risen sharply to 8 per cent thus eliminating the interest rate differential.

On a trade weighted basis the US dollar now stands about 45 per cent above its 1980 level and at around the level of mid-1984. Considering the change since 1982 when the current account was in balance the rise is a more modest 15 per cent.

Factors that put a questionmark over the dollar are the Federal deficit at an estimated \$220bn in 1985, the still deteriorating current account at an estimated \$120bn this year, and forecasts of further slowdown in economic growth to perhaps 2.5 per cent in 1986.

However, the recent unexpectedly high revision to the third-quarter figure for GNP growth taking it to 4.3 per cent at an annual rate could point to an upward revision to the 1986 estimate.

Also the switch in overseas bank lending by US banks which moved from \$45bn in 1982 to a net repayment of \$24bn in 1983 continued through 1984 and the first half of 1985. This switch in lending, leading to a shortage of dollars in the foreign exchange markets, helped to support the rise of the US dollar in 1983 and 1984.

Much of the supporting capital flows into

the US come from Japan which in the first eight months of 1985 had net capital outflows of \$65bn at an annual rate.

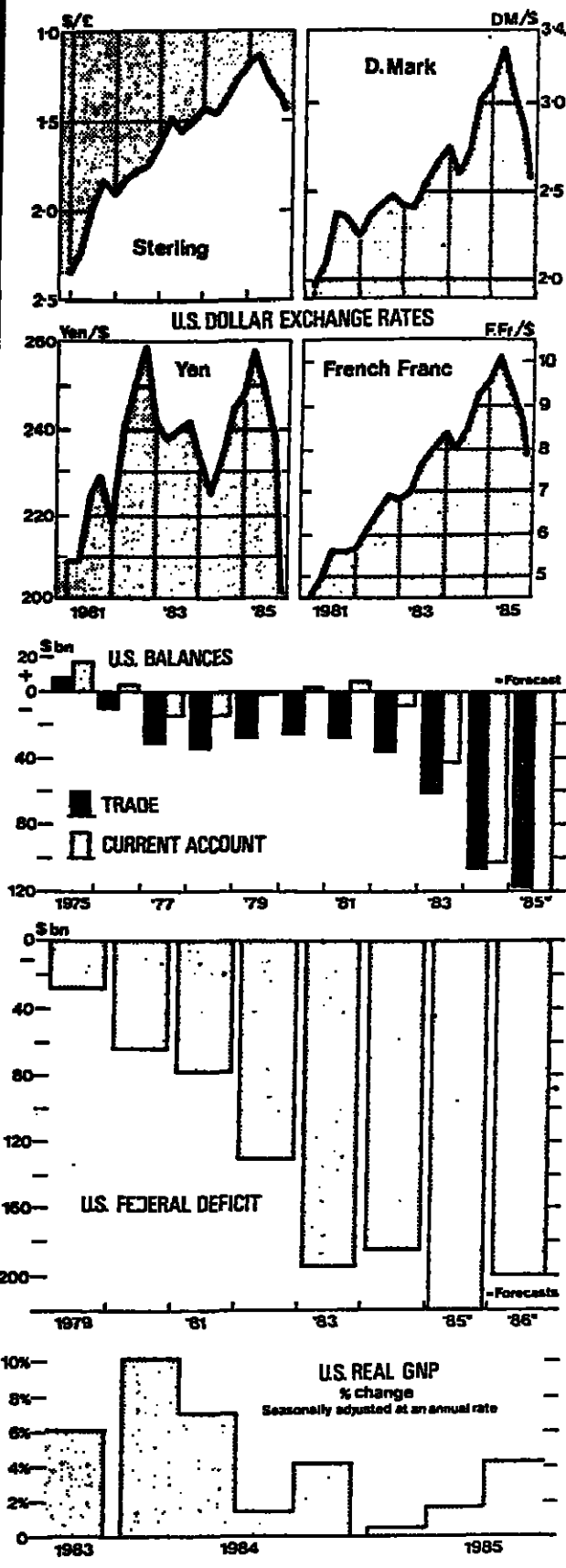
The US federal deficit is the major attraction for these funds, as the combined general government deficits of West Germany, France and the UK total a relatively modest \$45bn.

Although Japan is now a major exporter of capital, the yen has a very small role in the international capital markets. The yen's share of the more than \$1,000bn Euro-market is only 2 per cent. One of the major reasons is the lack of a need for borrowers to raise yen as nearly all Japan's imports and a major part of its exports are invoiced in non-yen currencies. Within the EMS the previous two years have

been a period of relative stability with the DM/FFr rate remaining remarkably steady since 1983. The rising US dollar trend against all currencies may have helped by making differences in trade performance and fiscal policies.

Thus the EMS went two years without a realignment until the 8 per cent devaluation of the lira in July 1985. If the dollar depreciates further, perhaps internal strains will become more evident.

Not only economic factors will influence exchange rate movements in the next two years. Political factors will also be important with elections due in France, West Germany, Japan, and the UK.



PORTFOLIO INVESTMENT TO AND FROM THE USA					
\$bn	1982	1983	1984	1985	Q1 Q2
Inflow:					
Equities	3.9	6.4	-0.8	-1.1	0.4
Treasury securities*	21.5	8.7	22.4	2.6	5.3
Other Bonds	1.5	2.2	13.8	10.6	6.7
Total	26.9	17.3	34.4	12.1	12.4
Outflow:					
Equities	-6.6	-3.1	-3.9	-0.6	-1.9
Bonds	-1.5	-3.9	-1.1	-1.8	-0.7
Total	-8.1	-7.0	-5.0	-2.5	-1.9
Balance:	2.4	2.5	-1.9	-3.0	-0.3
Equities	16.4	7.8	+32.3	+12.6	+10.2
Bonds	19.8	+10.3	+30.4	+8.6	+10.5
Foreign official purchases of US gov. securities*	+ 6.5	+ 4.9	- 7.5	+ 8.7	

PORTFOLIO INVESTMENT TO AND FROM JAPAN					
\$bn	1982	1983	1984	1985	Q1 Q2 Q3*
Inflow:					
Equities	4.9	4.1	7.5	0.8	-1.7 -0.5
Bonds	4.9	1.1	3.5	-0.8	0.8 0.2
Total	6.5	6.2	3.7	0.0	-0.9 -0.4
Outflow:					
Equities	-0.1	-0.6	-0.1	-0.1	-0.5 0.0
Bonds	-0.1	-12.5	-25.6	-7.2	-14.6 -19.4
Total	-0.2	-13.1	-25.9	-7.3	-14.3 -19.4
Balance:	6.3	-7.3	3.3	0.7	-2.2 -0.6
Equities	1.5	+3.5	-7.3	0.7	-2.2 -0.6
Bonds	-1.2	-10.8	-23.2	-8.0	-13.2 -19.2
Total	0.3	-7.3	-30.5	-7.3	-15.4 -19.8

* July/August at a quarterly rate.

Commentary by our Economics Staff; data analysis by Financial Times Statistical Unit; charts and graphs by FT Graphics Department.

REPORTING BANK CHANGES			
\$bn	Total	Net	External Assets
1979	206	125	
1980	291	160	
1981	265	165	
1982	176	95	
1983	108	85	
1984	120	-96	
1985*	120	60	

* Half year annualised. Source: BIS

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UK NEWS

Economic recovery in danger of stalling says forecast group

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

A CALL for an immediate cut in interest rates to prevent the economic recovery from stalling was made yesterday by Liverpool University's economic forecasting group.

The group, led by Mr Patrick Minford, an influential adviser to the Government's anti-inflation strategy, says the tightening of monetary policy since the beginning of the year may now be doing more harm than good.

Mr Minford says the slowdown in the growth rate of the narrow money supply measure, M0, over recent months indicates that Britain has the tightest monetary policy it has ever had.

"These figures are flashing red on the dashboard of monetary control," he says. "Unless immediate action is taken to reduce interest rates, a stalling in the growth rate is increasingly likely, he says in the group's Quarterly Economic Bulletin.

Mr Nigel Lawson, the Chancellor of the Exchequer, is accused of retreating into "middle and discretion on monetary policy."

The bulletin, however, gives an optimistic assessment of the prospects for the economy if interest rates are cut. It predicts growth next year of 3 per cent, with inflation averaging an annual 3.3 per cent. It also predicts a slight drop in the unemployment rate to 3.1m next year and 3m in 1987.

It argues that the Government is right to use the receipts of the privatisation programme to finance tax cuts and welcomes what it sees as a new flexibility in fiscal policy. The benefits of tax cuts and privatisation for the supply side of the economy will sweeten the pill of long-term public spending reform, it says.

Mr Minford says Mr Lawson should use the scope for tax cuts to raise thresholds rather than to reduce the 30 per cent basic rate of income tax. Cuts in the basic rate are only half as effective as increases in thresholds in reducing unemployment, it argues.

The political gain to the Government of helping to reduce the deficit through a lower basic rate should, therefore, be overridden by the economic logic of seeking to pull low-paid workers out of the unemployment trap.

● In a separate review of the out-

look published today, the Henley Centre for Forecasting suggests that 1986 will provide the ideal economic background for an early general election.

The centre says that if the Treasury's forecasts of rapid growth, tax cuts and inflation falling to the level of the last general election in 1983 prove correct, the autumn of 1986 might be the best time for the Government to seek a new mandate.

The latest possible date for an election is the spring of 1988.

The main engine for economic growth next year is expected to be a surge in consumer spending as inflation drops sharply and the pace of earnings growth remains strong.

Such rises in spending have been the traditional way in which governments have approached elections, and the official projection of a 4 per cent increase in 1986 clears the way for an election in the autumn of next year or the spring of 1987, it says.

A decision to call an election later than that would risk its coinciding with what the centre forecasts will be a distinct falling in the growth rate as the consumer boom fades.

Peter Riddell writes: The Government is wittingly sacrificing the prospect of real long-term recovery for the short-term and spurious impression of success ahead of the next election, Mr Roy Hattersley, Labour's economic spokesman, said yesterday.

He told a meeting of the Labour economic strategy group in Birmingham that economic policies adopted this autumn represented "degenerate irresponsibility and a squandered opportunity for a political survival."

He was speaking ahead of the publication later today of a report by the cross-party Treasury and Civil Service Select Committee of the House of Commons which is expected to be critical of aspects of present policy.

He said the Government now proposed a version of "Reaganomics" - a relatively tight monetary policy based on high real interest rates and an overvalued currency, operated in conjunction with a more expansionary fiscal policy based on a growing public sector financial deficit caused by tax cuts and financed by privatisation.

Sectarian image of Protestant volunteer force worries Dublin, Hugh Carnegie reports

Pressure up on Ulster's part-time soldiers

ONE OF the top items on the agenda at the first meeting of the Anglo-Irish Intergovernmental Conference set up under the Anglo-Irish agreement is the role of the Ulster Defence Regiment.

The UDR, 8,500 strong and 97 per cent Protestant, has long been regarded by many in the minority Nationalist community in Northern Ireland as a sectarian force which includes extreme Loyalists and whose members regularly harass Roman Catholics while on duty.

This view is strongly denied by the UDR but it is one of the few issues in the forefront of controversy following the signing of the agreement last month.

The joint communiqué issued at the signing said the first meeting of the conference would look at ways of ensuring that the security forces "discharge their duties even-handedly and with every respect for the Unionist and Nationalist identities and traditions."

Both Dr Garret FitzGerald, the Irish Prime Minister, and Mr Peter

Barry, his Foreign Minister, who will lead the Irish side at the conference, subsequently made it very clear that to achieve this they wanted changes in the UDR.

The Irish Government takes the view that the UDR has been a key factor in the alienation of Nationalists from authority in Northern Ireland and must be changed if the agreement's commitment to ending that alienation is to succeed.

The British Government, sympathetic to the Unionist view that the UDR is an indispensable force in the fight against the IRA, has said the structure and control of the regiment will not change.

However, some shifts in operational methods are already under way. Last week the UDR announced changes in training procedures clearly aimed at tackling Nationalist complaints by improving the conduct of soldiers at vehicle and other checkpoints, where most criticisms of harassment originate.

The UDR was established in 1970 as an internal security force follow-

ing the disbandment of the notorious Ulster Special Constabulary, or 'B' Specials. It remains a mainly part time force - only 2,700 of its members are full time, with 107 officers attached from regular British Army regiments.

The UDR costs only £40m a year to run, far less than a regular regiment or the RUC equivalent would. One of its main operational strengths is the detailed local knowledge of terrain and people of its soldiers.

The regiment has always been a prime IRA target. To date 151 serving UDR members have been killed, 123 of them off duty, and a further 41 ex-UDR soldiers have been assassinated.

Eight of the first 23 killed were Catholics and since then the number of Catholics in the regiment has dwindled from a maximum of 18 per cent to 3 per cent.

"We would love to have more Roman Catholics in the regiment but the IRA has made a deliberate policy of killing our Catholics," said UDR commanding officer Brigadier

Roger Preston. He does not regard recruiting Catholics as an impossible task.

Nor does he accept the view of the UDR's best known former member and advocate, Mr Ken McGuinness. Official Unionist MP for Fermanagh and South Tyrone, who says the UDR should be accepted as a "moderate Protestant army."

Mr McGuinness, who served as a part time UDR man for 11 years, argues it is inevitable that in combating the IRA, the UDR not only does not attract Catholics, but is resented by many Catholics.

"I wouldn't be a Catholic in the UDR," he says, referring to the number of Catholic UDR soldiers who have been killed by the IRA.

Mr Seamus Mallon, deputy leader of the Social Democratic and Labour Party, and a strong critic of the UDR, would like to see Mr Barry pressing for the regiment to be disbanded.

Short of that, it must be taken completely out of contact with the public. "The reality is they will

never be acceptable to the Catholic community," he says.

Mr Mallon's greatest criticism is that the UDR harbours Loyalist paramilitaries. Eleven members of the UDR have been convicted of murders, most of them sectarian, and many Nationalists believe not all cases have been brought to justice.

Brigadier Preston says the number of cases has to be seen in the context of more than 30,000 men who have passed through the regiment. He says recruitment vetting is rigorous, with each applicant subject to vetting by both the UDR and a joint police and army body.

The brigadier does not seem to be worried that the UDR's days have been numbered by the Anglo-Irish agreement. The regiment would be only too happy to pack up and go home if violence was to cease.

In the meantime, Brigadier Preston knows that however much even some British politicians would like to disband the regiment, no one has yet suggested a viable alternative.

Paisley reaffirms hard line on deal

Financial Times Reporter

AS BRITISH and Irish Ministers prepared for the first meeting in Belfast of their new intergovernmental conference on Northern Ireland, the Rev Ian Paisley, leader of the Democratic Unionist Party, said yesterday that there could be no compromise in Unionist opposition to the Anglo-Irish agreement.

Speaking on television he said: "We cannot back off the Anglo-Irish agreement because it destroys the Union. There can be no compromise. It's not for renegotiation, it's for scrapping."

Mr Paisley said that there was no prospect of power-sharing with the Social Democratic and Labour Party because the SDLP supported the agreement.

He warned that he and other Unionist leaders might eventually have to advise any members of the Royal Ulster Constabulary (RUC) and Ulster Defence Regiment who were unhappy at Dublin's involvement in security matters through the intergovernmental conference to resign, although at present the advice was to remain in their places.

In Dublin, Dr Garret FitzGerald, the Irish Prime Minister, told a meeting of his Fine Gael Party that both his Government and the British Government were determined to put the agreement "into full force."

Mr Peter Barry, Foreign Minister and leader of the Irish side at the intergovernmental conference, said the Republic wished to persuade the Unionists, not threaten or coerce them. "We respect their wish to stay apart from us," he said.

RUC fears of an IRA campaign against the Anglo-Irish agreement were raised at the weekend. Two RUC men were killed and three seriously injured when shots were fired and a bomb exploded at Ballygawley police station.

Their deaths brought to 23 the number of RUC officers killed this year, the highest total since 1976.

Security forces also discovered 20 pounds of explosives and bomb-making equipment in West Belfast, which police said appeared to be aimed at an RUC station. The two incidents followed an IRA bomb attack on an RUC station at Toome Bridge last week.

Employers using more temporary workers

BY OUR ECONOMICS CORRESPONDENT

A SIGNIFICANT rise in the number of temporary workers in Britain may be the beginnings of a permanent shift by employers towards more flexible organisational and manning strategies, according to a study by the Manpower Services Commission (MSC).

The study, which was published in the latest Labour Market Quarterly Report, says that 1.5m people were in temporary, seasonal or casual work, or working on fixed term contracts last year. That represents 6.5 per cent of total employment and compared with 1.3m temporary workers a year earlier.

The rise supports evidence from other analyses of the labour market which suggest that employers are relying increasingly on a relatively small "core" labour force, supplemented when necessary by occasional workers to whom they have no permanent obligations.

The MSC says that over 60 per cent of temporary work was carried out in distribution, hotels, catering and other service industries, while over half of all temporary jobs were part-time. Around 75 per cent of the part-time jobs are taken by women.

The report cites a number of traditional reasons for employers using temporary labour, such as coping with seasonal peaks in work or covering for temporary absences of workers.

There is also evidence, however, that the shake-out in the labour market after the recession of 1980 has brought a more permanent shift in employers' behaviour, it says.

Companies now keep their permanent establishments down to the "off-peak" level and use temporary workers when needed. At the same time high unemployment has boosted the number of people willing to take temporary jobs.

New chief for Takeover Panel

THE TAKEOVER Panel acquires a new director-general today with the arrival of Mr John Walker-Haworth on a two-year secondment from merchant bankers S. G. Warburg.

Within the next three months or so the panel will also need to decide on a new scheme to finance itself, and will have to thrust out a new system for regulating integrated securities firms. Under the new stock market structure, these firms may be making markets in the shares of companies at the same time as advising those companies in takeover situations.

"It's going to be a fascinating two years in the context of major changes in the securities industry," says Mr Walker-Haworth. The panel will do its best to continue as an independent self-regulatory body, operating entirely outside the statutory framework as it has done throughout its 16-year history.

In the white paper (policy document) last January the panel was offered statutory backing if it wanted it. The offer has subsequently been rejected but very firmly refused.

Mr Walker-Haworth explains that it is essential that the panel should not be seen as the final arbiter, and should not be a mere first step in a legal chain as would be the case if its authority were seen to derive from statute.

"With the increase in the amount of money involved in bids there would be a tendency to fight cases to the highest level," says Mr Walker-Haworth. "Bid participants must not be tempted to look through the

Barry Riley meets the head of a City body that is eager to remain independent and self-regulating

panel is, ultimately, the House of Lords." He has "a hope and an expectation" that the panel will be left out of the bill.

Mr Walker-Haworth, a barrister by training, spent 10 years from 1967 with stockbrokers Cazenove. Of the past eight years, he has spent six in corporate finance in Hong Kong, most recently for East Asia Warburg.

He takes up the reins at a time of an astonishing spate of takeover bids, which last week alone totalled more than £50m. The problem of the heavy workload on the panel's executives will be one of his first subjects for attention, with the team of nine said to be regularly working a 12-15 hour day.

Already the panel has gratefully expanded its office space vacated by its now defunct parent body, the Council for the Securities Industry (CSI) and it hopes to recruit one or two more executives. "A lot of the processes are the same for a £1m takeover as for a £10m takeover, but the larger figures give a lot more focus, and there tend to be a lot more professional players on either side," says Mr Walker-Haworth.

The CSI has been phased out in favour of the statute-backed Securities and Investments Board (SIB), a body with which the Takeover Panel is not expected to have any formal relationship (and some within the panel are said to be surprised at

how few feelers the SIB has put out even on an informal basis).

The panel is happy to stand alone, but it will need to seek new sources of finance because it has been paid for up to now by the CSI out of the proceeds of a 60p stamp on stock exchange deals of more than £5,000. This money runs out next March 31.

Various options continue to be considered, including a levy on takeover deals. "We wouldn't necessarily confine ourselves to one source of income," says Mr Walker-Haworth. "But we feel the beneficiaries of the panel are shareholders so there is some logic in a levy on the market place."

March is also the deadline for a decision on the treatment of conflicts of interest between the new-style securities groups, when merchant banks, stockbroking firms and stockjobbing (market making) firms will be allowed to merge. This will follow stock exchange rule changes on March 1 (though for tax reasons most mergers are likely to be developed until after April 5).

A panel discussion paper circulated in the summer caused controversy by suggesting that market-making activities might need to be restricted or even halted if firms became involved in advising on bids. According to Mr Walker-Haworth: "Those issues of conflict are going to have to be addressed. There haven't been any decisions taken yet on the discussion paper. But there's no point in designing something that a market maker isn't able to live with in his day-to-day business."

Tyndall Bank
(Inc of Man) Ltd
Kensington Road, Douglas
Isle of Man - Tel: 0624 22201
Interest Rates
Sterling Money Account 11.00%
Dollar Money Account 7.00%

Company Notices

CITY OF LIMA

(The Honourable Municipal Council of Lima)

5% FIRST MORTGAGE BONDS 1981

NOTICE IS HEREBY GIVEN that the Lima City Council has decided to issue 5% First Mortgage Bonds 1981 for the sum of \$1,000,000.

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Ultramar seeks to buy oil exploration assets

BY DOMINIC LAWSON

ULTRAMAR, the aggressive UK oil company, is preparing to spend up to \$500m in acquiring oil exploration and production assets, and is considering a bid for one of a shortlist of UK oil exploration companies.

Last week Ultramar clinched a \$120m deal to buy oil refining and marketing assets from Gulf Canada.

Mr David Elton, a director of Ultramar, said that the company had a well-balanced refining and marketing operation, but must now expand its production and exploration interests, particularly in the UK and the US.

Mr Lloyd Bensen, the chairman of Ultramar, added that the company was prepared to spend "between \$300m and \$500m cash" to achieve this end.

Although it is a UK-quoted company, Ultramar is under-represented in the North Sea, and the problem was exacerbated in the most recent round of offshore oil and gas licences, in which the company was awarded only a part interest in one block.

In 1983 Ultramar approached the Government with a view to taking over some of British Gas's offshore oil interests, but the Government chose instead to float them on the stock market as Enterprise Oil.

Ultramar is looking to acquire a UK company with a wide range of North Sea and onshore interests, and with cash flow from current production. Ultramar will most likely finance the deal by drawing on its unused lines of credit, totalling about \$800m.

Ultramar had been part of the

group of independent oil companies which acquired British Gas's half share in the Wyth Farm oilfield in Dorset, the largest onshore oil field in Europe. But Ultramar dropped out of the bidding group before the deal was concluded.

Since then the share prices of the oil companies that bought the interest have fallen precipitately, and it is thought that some of those companies are now on Ultramar's shortlist.

The companies involved in the Wyth Farm deal are Tricentrol; Premier Consolidated Offshore; Carless Capel and Leonhard; Clyde Petroleum and Goal Petroleum.

Ultramar's interest in the UK onshore oil scene was heightened by its participation last year in a very promising discovery near Winchester.

Government wants 1987 start on fixed Channel link

BY PETER RIDDELL, POLITICAL EDITOR

THE GOVERNMENT wants to clear the way for a 1987 start to work on a fixed link between England and France. This is despite the opposition which will be expressed in the House of Commons later today, by a number of Tory MPs and the Labour Party to the speed with which decisions are being taken.

Opening the full-day consultative debate, Mr Nicholas Ridley, the Transport Secretary, will emphasise the Government's desire to press ahead with the project on national grounds, despite local objections.

He will make clear that no decision has yet been taken between the four main options despite the claims of lobbyists for the competing groups. But he will indicate a desire for maximum competition in methods of crossing the Channel.

This could lead to support for a combined rail and road link, variants of which have been submitted by two groups. A public inquiry has been ruled out because of the probable delay. The expected timetable is that the technical assessment will be completed within the next few days in time for decisions by ministers of the British and French Governments in the next few weeks and

the signing of an agreement with France next month.

A special hybrid bill would be laid before parliament which would allow objections to present their views to MPs.

This procedure has been attacked as too hasty both by some Tory MPs from Kent, south-east England, and by the Labour Party. Mr Roger Stott, one of Labour's transport spokesmen, said yesterday the timetable was "far too short" since the impact on shipping, employment at ports and the environment should be considered more fully. Labour intends to vote against the Government tonight because of the failure to hold a public inquiry.

Some Tory MPs may also vote against the Government or abstain. Mr Jonathan Aitken, MP, said on Thursday that decisions were being made with "indecent haste and unnecessary secrecy."

Despite the reservations about the way the decision is being taken, however, most MPs broadly favour some form of Channel fixed link. On the Conservative side, many MPs, including apparently Mrs Margaret Thatcher, the Prime Minister, favour the maximum flexibility to avoid dependence on the rail unions.

MPs seek review of policy on competition

By Our Political Editor

THE Government will come under increased pressure this week from MPs to accelerate its review of competition policy in the light of the latest wave of takeover bids.

Labour and Alliance spokesmen yesterday claimed that the scale and number of recent bids raised questions both about the structure of industry and the operation of the Government's competition policy.

Mr Michael Howard, the junior Minister for Corporate and Consumer Affairs, announced three weeks ago that a general review of competition policy would be undertaken next year.

The official word yesterday was that there were no plans at present for accelerating the timetable, but this may change in view of the latest City developments.

Even before the Hanson bid for Imperial Group on Friday, a number of senior Tory MPs were expressing concern and calling for clarification of how far the Government's yardstick for referring bids to the Monopolies and Mergers Commission remains primarily on competition grounds.

Mr Bryan Gould, Labour's trade spokesman, has argued that companies are having to operate in a vacuum

Individual investors targeted in plans for privatisation

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE BRITISH Government anticipates that at least half of the £14.75bn it expects in revenue from its privatisation programme during the next three years will be raised from individual investors. It is likely to aim for an even higher figure from individuals.

The Government is therefore assuming that about £2.5bn a year of individuals' savings may be absorbed by asset sales, a development which is expected to intensify the strong competition for personal deposits among building societies and banks.

The confidence that financial markets will be able to cope with the speedy implementation of privatisation is partly explained by a perception of vast wealth in the personal sector.

At the same time the cash position of the major institutions is expected to improve because of the ending of official "overfunding" in the gilt-edged market, lower inflation, and a much-reduced level of overseas investment.

The increased emphasis on targeting sales towards private investors has been reflected in the framing of the terms of this week's sale of the Government's remaining 23 per cent share in Cable & Wireless.

Only one third of the shares have been firmly pre-placed with institutions compared with the 61 per cent reserved for institutional or overseas buyers when British Telecom was floated last year.

This technique, which allows shares to be clawed back from institutional underwriters if an offer is heavily oversubscribed by the public, is expected to feature in future flotations. The key to a successful sale for individual investors is to create the belief before an issue that shares will be in short supply, but then ensure that applicants are not disappointed if there is heavy demand.

The privatisation programme for next year has been unaffected by the delay in the flotation of the Trustee Savings Bank. The Treasury cannot fit in another issue in the early months of the year because the prospectus for any direct sale by the Government would have to include details of possible budget measures which could affect the value of the shares.

The £4.75bn expected for the 1986-87 financial year will come from a third instalment due on British Telecom and the sale of British Airways, the Royal Ordnance factories, the National Bus Company and a first instalment from British Gas.

Worries over gas licence terms

BY MAX WILKINSON AND DOMINIC LAWSON

THE TERMS under which British Gas will be licensed as a private monopoly are creating considerable argument in Whitehall. This is not likely to be resolved by the publication of the licence, which is expected today.

The proposals have provoked hostile comments from officials and ministers, who fear that the regulatory body set up to supervise British Gas is not being given adequate powers.

Ministers are also still arguing about whether to de-regulate the supply of North Sea gas by lifting the present restrictions on foreign trade.

Other unsettled business includes important details about how prices should be set for would-be competitors which may want to claim their right to connect into the corporation's pipeline network to supply their customers.

The licence, which the Government plans to publish today, was foreshadowed in the Gas Bill re-

leased by Mr Peter Walker, the energy secretary 10 days ago.

This set out the general legal framework for the privatising of British Gas and made it clear that the regulator (Ofgas) would have no power to supervise the pricing of gas in the North Sea, and very limited powers to set gas prices in the contract market for industrial customers.

Although Ofgas will act to some extent as an umpire in disputed contracts, the most important powers are reserved for the Monopolies Commission and the Office of Fair Trading. Mr Walker is likely to argue during the second reading of the bill on Tuesday that the threat of action by the Monopolies Commission will ensure the good behaviour of the new corporation.

However, some ministers fear that this easy regulatory regime will give too much ammunition to the opposition during the debate on the bill. They have argued that pub-

lic support for the whole privatisation programme could be eroded if it is believed that the new British Gas will provide profits for shareholders without the incentive to improve its service which could come from more competition or tough regulation.

One focus of criticism is that clause 4 of the Gas Bill setting out Ofgas's general duties gives it no general remit to encourage competition. This is a marked contrast with the position of Ofel, which regulates the telecommunications industry.

Another criticism is that Ofgas does not have power to ask directly for stronger powers if it thinks British Gas is abusing its monopoly position in relation to industrial customers. Its powers could be extended only through a rather involved procedure in which the Office of Fair Trading made an application to the Monopolies Commission.

Labour inquiry into Liverpool party

BY OUR POLITICAL EDITOR

THE LABOUR Party national executive inquiry into the operations of the district party in Liverpool opened yesterday amid charge and counter-charge over the influence of the Trotskyist Militant group.

The inquiry, headed by Mr Larry Whitty, the party's general secretary, will take written and oral evidence in Liverpool for two days. The aim is to prepare a report for next month's meeting of the full national executive committee.

The inquiry was set up following

the condemnation by the parliamentary leadership of the approach of the local district party to the city's budget crisis. At one stage 31,000 redundancy notices were issued.

The annual conference of the Labour Co-ordinating Committee, the main left-wing group broadly sympathetic to the parliamentary leadership, on Saturday overwhelmingly passed a motion of support for the party's inquiry into Liverpool.

The start of the inquiry has been accompanied by a counter-offensive by Militant involving the holding of 100 public meetings throughout Britain, a drive to increase the circulation of the Militant newspaper and extra fund-raising activities.

Labour MPs Mr Tony Benn and Mr Eric Heffer have pledged their opposition to the action of the national executive in calling the inquiry and temporarily suspending the district party.

NOTICE TO BONDHOLDERS

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Principal Amount: U.S. \$100,000,000

Amount payable on Redemption: U.S. \$257,500,000

Issue Price: 100% of the Principal Amount

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The final instalment of the issue price of the above Bonds falls due for payment on 17th December, 1985. Payment of the final instalment, amounting to 20% of the Redemption Amount of the Bonds (i.e. U.S. \$1,430 per U.S. \$3,000 Redemption Amount), must be made by requesting Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euro-clear system ("Euro-clear") or Cedel S.A. ("Cedel") to transfer the amount of the final instalment for value 17th December, 1985 from the account of the persons appearing in the records of Euro-clear or Cedel as being entitled to partly-paid Bonds to the account of the Republic of Austria. Such requests must be made in writing, not later than 10.00 a.m. (Brussels time, or as the case may be, Luxembourg time) on Thursday, 12th December, 1985.

No payment made after 17th December, 1985 will be accepted unless accompanied by a further payment representing interest on the final instalment at the rate of 12% per annum from (and including) 17th December, 1985 to (but excluding) the date of payment, calculated on the basis of a year of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

The Republic of Austria may elect not to accept any payment of the final instalment of the issue price for Bonds made after 17th December, 1985, even if payment is accompanied with accrued interest as aforesaid, and furthermore will not accept any Bonds in respect of which payment has not been made. Following such forfeiture the Republic will retain any first instalment of the issue price previously paid and will be discharged from any obligation to repay such instalment or to pay any other sum whatsoever in respect of any such Bonds to the holder thereof.

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THE ARTS

Lutoslawski/Elizabeth Hail

David Murray

Witold Lutoslawski's concert with the London Sinfonietta have become popular celebrations. Last Thursday's plainly, with a large audience settling into the Elizabeth Hall confident that they like what this man does. Few contemporary composers have secured that kind of response among composers, very few indeed. At 73, you might think he has had time enough to secure it; but he was already 45 when his *Musique funèbre* made his name internationally known (and mispronounced); the second "I" isn't an "I" but a Polish thing, rebarbative to Western typesetters, and it sounds more like a "w".

I remember very well the London premiere of *Musique funèbre*, composed in memory of Bartók but on "serial" principles which Bartók had never espoused, though he had his own analogous methods. In the musical climate of the late 1950s, indiscriminate hostility to opaque music that appeared more to theory than to the ear, *Musique funèbre* was a surprise: it was quite transparent, it had obvious roots in the past, and yet it was both creditably original and immediately convincing. It spoke, in short, and you didn't have to have read the programme-note first.

We discovered only later that *Musique funèbre* represented the first phase of a mature, sophisticated composer stripping-down of his musical means, and that his *Jeux éphémères* of 1961 would complete the exercise, relying wholly on new devices—always candid—to fill up a big musical space cogently. Since then Lutoslawski has found ways of

reintroducing familiar kinds of gesture, like the florid cadenzas of the Double Concerto that was delightfully repeated on Thursday, but always within his own kind of construction. His terms are honest (where the music intermittently sounds dense and abstruse, its elements always prove to be simple), and what he does with them is infinitely personal—witty above all, but with a wider, darker expressive range too.

Besides the Double Concerto, which reconstructs the traditional diptych-piece as if out of children's blocks with great comic panache (the oboist Gareth Huise and the harpist Nuala Herbert were brilliantly fluent), he heard again Lutoslawski's 1983 gift to the Sinfonietta, *Chain 1* (Chain 2 is coming in the New Year). He likes to come bearing gifts: this time he brought 17 Polish Christmas Carols, too.

Again I found *Chain 1* a marvel, bubbling with invention that are unforeseeable but instantly plausible and marvellously conceived for the ear. The "new" set of Carols is of quite different order: Lutoslawski has orchestrated his commissioned 1946 versions of traditional Christmas songs, quite straight, without his up-to-date devices. The tunes are faithfully intact, the harmony often gently skewed—much in the manner of his 1941 "Paganini" Variations for piano duo, but without irony or mischief. Instead, the effect is to shadow the innocent melodies with conscious, tender concern—a sort of devoted anxiety, rather private and yet plain to hear. Oblique frankness is his special gift.

The Crucible/Young Vic

Martin Hoyle

What solid, durable and still nail-bitingly vital theatre this is! Apart from the McCarthy witch-hunts, apart from the chilling glimpse of the psychology of hysteria that recalls the Nuremberg rallies, Arthur Miller's recreation of the Salem persecutions in the colonial America of the 1690s needs no special historical justification. The *Crucible* works simply and triumphantly as a play. Thereafter, as with all good plays, you can peel layer after layer of meaning from it as you will.

I have some reservations about David Thacker's serviceable production for the Young Vic. The intensity of Salem's superstitious bloodlust was a reaction against a rigidly disciplined and emotionally repressive society (the awful perversion of Senator Joe's demagoguery, cynicism, would-be piety, the local functionary in one of the freest and most open societies ever). Against the background of a harshly austere puritanism, adolescent girls dance naked in the woods, suppressed sexuality channelled into envy and malevolence.

The courtroom scene where the lying children claim to be supernaturally terrified by one of their number who has decided to tell the truth, can be one of the most thrilling in modern drama. A certain robust, all-shrieking excitement comes through in this production; but not the shocking contrast between the godly and the vicious, the feral beneath the starched civility.

A certain physical raggedness in the production is epitomised by Matthew Marsh as John Proctor, all due integrity, doomed by his refusal to compromise. Immensely intelligent as Hamlet or the jailed South African dissident Albie Sachs, Mr Marsh seems happier with the cerebral than the physical. Self-conscious in movement and unusually hoarse, he looks ill at ease until the rhetoric of the

final scene when Proctor decides compromise and death. A slouching deportment and Mr Marsh's own hairstyle contribute to a disconcertingly modern figure.

As the women's coldness drives Proctor to the maid-servant with fatal results, Margot Leicester's worn, weary realisation—too late—that love is the only way to survive is touching. Abigail McKern adds to her gallery of beautifully-furnished portraits as poor Mary, terrified of receding by the baleful Abigail. The latter is played by an actress new to me, Cornelia Hayes, with the look of a young (and, appropriately, nastier) Marilyn Streep and an attack that promises well. Maggie McCarthy and David Glover, each the denouncing Putnam, rancorously paranoid and greedily acquisitive respectively, in bold strokes, reminding us of the different levels of motivation in all persecution; and Peter Geaves perfectly captures the local functionary blooming into self-important officiousness.

Further reservations include the mannered preciosity of Geoffrey Bevers, Reverend Parris, which contrasts unfavourably with the gentle, almost small-scale approach of Hugh Ross. As Hale, the religious fanatic who comes to have terrible doubts about the madness round him, Mr Ross's carefully understated performance grows in calm authority. This is what Corin Redgrave's Deputy Governor lacks. His educated Scots accent is a mistake: this is traditionally the accent of scepticism. But his whole production does justice to a life play, not least Miller's beautifully-balanced answer to the language problem in historical dialogue. The Mummerseid (how well the cerebral than the physical. Self-conscious in movement and unusually hoarse, he looks ill at ease until the rhetoric of the

In the summer of 1970 Richard Rogers, with his then partner Renzo Piano, was just one of some 681 practices that had entered the international competition to design the Pompidou Arts Centre in Paris. When it came to the question of who was to design Lloyd's in London, a different system was adopted. A shortlist of some 40 architects was whittled down to six who were then asked to offer an approach to the particular problem and not, at that stage, to come up with a final architectural solution.

The present character of the new Lloyd's building, due to be in use in January with a grand opening later in the year, goes back to Rogers' original design strategy. The great need was for an underground room three times the size of the present one which would be flexible enough to expand with the market while retaining the traditional atmosphere of the old Lloyd's, keeping the "boxes" but in such a way that the latest office and communications technology could be fitted in. When underwriting was slack there had to be a provision for unlet space to be utilised as commercial offices.

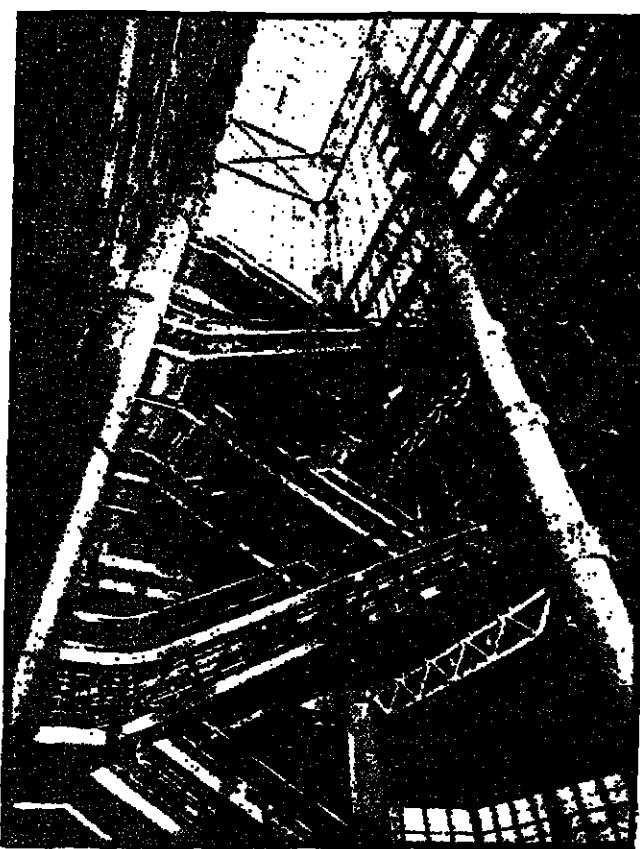
Out of this initial strategy has emerged the present Lloyd's, with the Room at the foot of a giant atrium which is surrounded by 12 galleries which can be tenanted offices or parts of underwriting space. This approach has given the building a high plot ratio; there is something like eight times the site area utilised as office floor space—at total gross area of some 520,000 sq ft. This solution has at its heart a huge rectangle of usable space achieved by the removal of stairs, lifts and services to a series of six satellite towers on the outside of the building.

Richard Rogers' fame as an architect undoubtedly goes back to the one, very simple idea that he has consistently maintained: that if you hang all the services for a building on the outside there is going to be a lot more clear space within. So far, so logical. But what about the structure? How are these free spaces to stand up? As at the Pompidou Centre the supporting columns are all outside the glass walls (at Lloyd's there are eight inside the atrium and 20 outside the main walls) thus creating a curiously indeterminate area around the circumference of the building.

It is here that the difficulties start. You have a large building with large floor areas that have to be supported and no internal stabilising forms like

Architecture/Colin Amery

Cool cathedral for Lloyd's



Interior of the Lloyd's building during construction

lift shafts or cross walls. Lloyd's deftly appears to the contrary, is a reinforced concrete structure—floor beams yoked to columns with heavy brackets, visible like knuckle joints, all round the outside of the structure. To give this the support it needs there has to be a lot of diagonal bracing and this is visible on the outside. The handsome glazed barrel vault is, in turn, connected by steel castings to the central columns.

It is necessary to understand a little about the structure of this new home for the insurance market because the whole place is a giant example of civil engineering. Heating and cooling and draining the place has a little about the structure of this new home for the insurance market because the whole place is a giant example of civil engineering. Heating and cooling and draining the place has a little about the structure of this new home for the insurance market because the whole place is a giant example of civil engineering.

What is the origin of what has come to be called "high-

tech" architecture? It goes back to a rather incestuous moment of recent architectural history when the yellow submarine of a London group called Archigram came to the surface at the Architectural Association. Their premise was—and I believe that some of their ageing members still believe it—that the future of mankind lay in a highly serviced megastructure. The centres of our cities would resemble oil refineries, and we would whizz about in tube-gazing enraptured at the giant machines that have replaced architecture as we know it.

The Pompidou Centre was closer to this dream than almost anything before or since. It was built in Paris as one example of a certain kind of haute couture modernism that until the 1970s had been missing from the Paris collection. If you stand on the Rue du Renard, where the centre lets all its services hang out with a vengeance, you behold a menacing sight. Of course the much heralded flexible spaces inside have proved to be the most unpleasant galleries in Europe and they

are now being remodelled. It must be said immediately that this approach represents the very junior manifesto of this practice while Lloyd's represents something of an advance. What Lloyd's has in its atrium is a fine, cathedral-like space, with a return to elements of architectural form particularly in the elegant Paxton-inspired curved roof vault. The complexity of the inside of the Pompidou has been restrained at Lloyd's; computer technology and telecommunications are located beneath the floor and there is much less "celebration of the servicing."

I would like to write about the inside of Lloyd's when it has been opened and functioning for longer. The impression now is of a remarkable, and in its way beautiful, internal space which when it is full of activity with the escalators rolling will be a magnet at the centre of the City. The newly developed translucent glazing for the walls (except where it is clear) seems to make the interior somewhat claustrophobic especially under the galleries. You can see the light but you cannot see out. The glass lifts on the outside will bring to London the kind of excitement that has been commonplace in American hotels for years—the view will be good. The walls must be kept as highly polished as a ship and the maintenance is going to be an expensive business. The Pompidou Centre looks rusty and decrepit if you see it on one of its bad days. I gather the pigeons have taken a shine to Lloyd's and the combination of guano and stainless steel does not sound too promising.

The Committee at Lloyd's decided it wants to escape from the world of high technology on the top two floors and has commissioned a leading French decorator to do up the rooms in an antique style to go with the reconstruction of the Adam room that Lloyd's has used since it moved in from Bowdoin House in Whitehall for committee gatherings. Is this a loss of nerve, a refusal to sit on chairs with holes in the seats, or just a natural institutional conservatism?

The problem with buildings of this kind is that they have little symbolic value; they lack the third dimension of meaning. But there is no doubt that Lloyd's is a tour de force of engineering and mechanics, to be admired for its daring effect on some designs and its permanently unfinished look. And once its eccentricities have been absorbed its more lasting qualities should emerge.

Obituary/Robert Graves

Anthony Curtis

Robert Graves, who died at the age of 90 on Saturday, was one of the great one-man bands of English literature. Poet, novelist, historian, scholar, translator, social critic—he assumed all these roles with untiring energy and a distinction born of his capacious mind and his fine power over the English language.

Graves wrote always like an angel, but an angel who was the sworn enemy of the received wisdom in any field of human endeavour. He was educated at Charterhouse, where he won a classical scholarship to St John's College, Oxford. He left before taking a degree to serve with the Royal Welch Fusiliers and participate in the First World War. He fought in the battle of Loos. This was an experience he described in the book with which he made his name, *Goodbye to All That* (1929), his permanent contribution to the literature of war.

Although Graves held no official position at Oxford until his election as Professor of Poetry there in 1961, his sway over his contemporaries was marked. The novelist Richard Hughes used to say that as an undergraduate the two people who had the greatest influence on him were Graves and T. E. Lawrence: both combined a reverence for the military life with classical scholarship and intellectual penetration.

Graves survived the war and in 1918 married Nancy Nicholson, who bore him four children. The isolated position he had acquired in the world of letters was undermined by his attacks on the Georgian poets and his residence abroad, first in Egypt and then in Majorca, where he went with the American poet Laura Riding after the collapse of his marriage. Graves now began to emerge as a lyric poet whose celebrations of sexual love had an Elizabethan buoyancy and vigour.

He returned to Majorca after World War II and married again. His income now depended on a series of novels and other prose books, of which the most celebrated was the two-volume historical fiction, *I Claudius*, which was adapted for television and most recently for radio. Earlier there had been projected film with Charles Laughton.

The onset of old age only served to increase Graves' appetite for work and relief for intellectual controversy. Fields of learning which keep teams of scholars busy for a lifetime on both sides of the Atlantic, Graves would invade and attempt to occupy. These pitched battles certainly added to the gaiety of the letters page of *The Times Literary Supplement*, and also produced some stimulating books. Best was *The White Goddess*, in which Graves attempted to reconstruct the matrilineal society of pre-Hellenic antiquity, and thus paved the way intellectually for the post-war feminist movement.

Graves was one of those salutary individuals who take great pains to point out that with civility is not what it seems. When he was awarded the Gold Medal of the National Poetry Society of America he took it to the goldsmiths of Mrs. Majorca, who examined it carefully and confirmed that it was not, in fact, made of gold. Graves's peculiar combination of anarchy and eloquence will be much missed.

A Prayer for Wings/Bush

Michael Coveney

It is not every night of the week that you bump into royalty at a fringe theatre, but the Prince and Princess Michael of Kent were in the Shepherd's Bush dark room on Friday night to see *A Prayer for Wings*, a production by Neil Mathias's Edinburgh Festival fringe hit to London. Time was when people went to theatres to tremble at the fate of royalty. Here was royalty seeping in on the fate of a multiple sclerosis victim in South Wales gobbling up tea and toast provided by her sluttishly resentful daughter.

Edinburgh reports, including Martin Hoyle's on this page, served notice of Part I Love's fine performance as the crafty bed-bound Mam whose past life of deprivation, failed marriage and illness have confined Rita to a role of filial servitude. Rita heaves Mam and her useless legs into a wheelchair. Mrs. Lloyd's hands reach slowly for the latest morsel from the Post Office. Total paralysis is not far off. Meanwhile Rita (an equally strong performance by Anne Mannion) tells of touching up boys for money and dreams of wealth and a family like some displaced inhabitant of Dylan Thomas's *Llareggub*. The play suffers from an overall slackness and some ghastly camp one-liners (Mam's maiden name was "Dyke" which is why she wanted to keep her married name after the husband disappeared) and is best when the contrapuntal soliloquies of yearning escapism are allowed to flow.

There are marked similarities here, in fact, with Mr Mathias's notoriously bad first play, *Cause and Effect*, in which an incestuous interdependent brother and sister played out a showbiz fantasy in the suburbs. "Rise above it" was Noel Coward's motto in all fairs; Mr Mathias's incestuous couple could become a playwright of environmental transcendence.

At the moment he is still technically sticky and an awkward engineer of dramatic momentum, underpinned by the direction of the author and Joan Plowright. The prattling lines are too repetitive, their triviality insouciantly camouflaged by a compelling language. But in presenting two equally trapped figures, one a cripple, the other her nurse and daughter, and in making of this a passable, if unspicacious, comedy, Mr Mathias has done much.

The intruder in *Cause and Effect* was a Shakespearean bore with a passport to recognition: the trio is completed here by Kevin Allen as a succession of local lads picked up by Rita and serviced for a few bob while Mam grows ever crazier next door. He finally appears as a real person, "an angel from Port Talbot" who has moved into the terrace unaware of her social role.

Best of all is the salacious blasphemy of all this cruel disintegration and sneaky sex taking place in a disused church, under the couple's curious habit of superbly decaying Geoff Rose as a stump, cream and cobwebbed chapel complete with stained glass window and a heavily carved choir screen.

Laurence Olivier Awards

Having secured over 30 nominations between them, it was once again the National Theatre and the Royal Shakespeare Company which benefited most in the Laurence Olivier Awards ceremony conducted by the Society of West End Theatre in London last night. The National scooped seven prizes: *Ayckbour's* *Chorus of Disapproval* was Comedy of the Year; Yvonne Bryceland, Best Actress in *The Road to Mecca*; Michael Gambon, Best Comedy Actor in *Chorus of Disapproval*; Bill Bryden, Best Director for *The Mysterium*; William Dudley, Best Designer for *The Critic* and *The Mysterium*; Imelda Staunton, Best Supporting Actress of the Year. Anthony Hopkins won the Observer Award for his performance in *Frankie*.

Play of the Year was Peter Barnes's *Red Noses* at the RSC and Anthony Sher was Actor of the Year for both his RSC *Richard and Torch Song Trilogy*. *Les Misérables* was overshadowed by *He and My Girl* which was Musical of the Year and won for Robert Lindsay the Best Actor in a Musical award. Patti Lupone won Actress in a Musical award for both *Les Misérables* and *The Crucible* and *The Crucible* won the English Tourist Board's Most Promising Newcomer was adjudged to be the Cheek By Jowl touring company and there were awards for Kathleen Battle in *Ariadne Auf Naxos* at Covent Garden and for Yoko Matsushita in the Tokyo Ballet's *Giselle*. The dance and opera production awards went to Merce Cunningham for *Pictures* and the ENO for *Kierres*.

Prize money totalling £23,000 has been awarded to the first playwrights' competition sponsored by Mobil Oil and adjudicated by playwrights Alan Bennett and Willy Russell, producer Michael Codron, Joan Plowright and James Maxwell in the Royal Exchange, Manchester, under the chairmanship of Melvyn Bragg.

Joint winners, each receiving £7,500, were Robin Glendinning for his first stage play, *Womb to the World*, and Tony Perrin, (who scripted many episodes of *Coronation Street* and has had plays produced at the Victoria Theatre, Stoke) for *W. P. Sweeney*. Third prize of £3,000 went to Jeff Noon for *Woundings*, another first play. The £3,000 Michael Elliott prize in memory of the Royal Exchange's founding director, went to Nigel Baldwin for *Insolent Confessions*.

Saleroom

An exhibition commemorating the taste of Thomas Howard, 2nd Earl of Arundel, perhaps the first great English collector, is currently on view at the Ashmolean Museum in Oxford. By chance you can buy at Christie's tomorrow some of the Arundel Marbles, classical sculpture which the Earl was shipping to England from Greece and Turkey as early as 1618.

Many of the marbles discovered for centuries, to be rediscovered by Denys Haynes of the British Museum. They are being sold by the Ashmolean Fathers of Fawley Court at Henley and Lord Burnham of Beaconsfield, and constitute the most important antiquities to be auctioned since the Castle Ashby vases of 1980, which realised £1.5m.

The prize lot is a marble relief slab of the Fallen Giant from the frieze of the great altar of Zeus at Pergamon, which could make anything up to £250,000; but other fragments of slabs could go for under £1,000.

Anthony Thornecroft

Arts Guide

Music/Monday, Opera and Ballet/Tuesday, Theatre/Wednesday, Exhibitions/Thursday, A selective guide to all the Arts appears each Friday.

Dec 6-12

Music

BRUSSELS
Palais des Beaux Arts (512 40 45): piano recital by Ivo Pogorelich (Wed); Belgian National Orchestra, conducted by Antal Dorati, with Lise von Albenhausen, piano, Haydn, Mozart, Brahms (Thur).
Conservatoire de Bruxelles (512 40 45): Lied recital by Barbara Hendricks, soprano, with Ralph Gothóni (Thur).

LONDON
Royal Philharmonic Orchestra, conducted by Antal Dorati, with Vladimir Ashkenazy, piano, Beethoven, Royal Festival Hall (Mon). (522 5111).

Vienna Chamber Orchestra, directed by Philippe Schmitter, piano, Mozart, Queen Elizabeth Hall (Tue). (222 5111).

London Philharmonic Orchestra, conducted by Simon Rattle, with Kyung Wha Chung, violin, Mozarsky, Rimsky Korsakov, Berg, Rachmaninoff, Royal Festival Hall (Tue).

BBC Symphony Orchestra, conducted by Mark Elder, with John Lill, piano, George Benjamin, Barok, David Matthews, Royal Festival Hall (Wed).

Berlin 60th Birthday Concert: London Sinfonietta and Voices, conducted by Lucano Berio, with Carlo Chiarappa, violin and Aldo Bennici, viola. Berio, including first British performance of *Requies*, Queen Elizabeth Hall (Thur).

London Mozart Players, conducted by Jane Glover, Mozart and Walton, Queen Elizabeth Hall (Wed).

Philharmonia Orchestra and Chorus and the choir of St John's College, Cambridge, conducted by Stephen Cleobury, Christmas programme, Royal Festival Hall (Thur).

PARIS
Berio 60th Birthday Concert: London Sinfonietta and Voices, conducted by Lucano Berio, with Carlo Chiarappa, violin and Aldo Bennici, viola. Berio, including first British performance of *Requies*, Queen Elizabeth Hall (Thur).

Ensemble Orchestral de Paris, conducted by Jean-Pierre Waller, Jose Sequeira-Costa, piano, Haydn, Beethoven (Tue). Salle Pleyel (43010830).

Orchestra de Paris, conducted by Daniel Barenboim, Vladimir Ashkenazy, piano, Berlin, Boulez, Beethoven (Wed, Thur), Salle Pleyel (4581807).

SPAIN
Barcelona: William Fong, piano, Beethoven, Chopin, Granados, Brahms, Ravel, Caixa de Pension, Passeig de Sant Joan, 108 (Tue).

Madrid, Wind instruments, conducted by Franz Cramer, Berg, Schubert and Mozart, La Union y el Fenix, paseo de la Castellana 33, (41 985 59) (Wed).

VIENNA
Vienna Symphony Orchestra, conducted by Semyon Bychkov, piano, Chopin, Shostakovich, Konzerthaus (72 12 11) (Mon).

Artis-Quartet, Beethoven, Webern, Schubert, Brahms, Schubert, Konzerthaus (Tue).

Ensemble Maurice Ravel and string orchestra of the French Music Institute, Maray, Barok, Merlet, Palais Clam Gallias (Wed).

Vienna Symphony Orchestra, conducted by Christoph Eschenbach, with a

do Gelber recital (Mon), Théâtre des Champs-Élysées (47247777).

Teresa Zylka Gara, soprano; Christian Vaidi, piano, Chopin, (Mon) TMD, Châtelet (42334444).

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Mira Zakai, mezzo-soprano, Blacher, Mahler, Musikverein (Thur).

NETHERLANDS
Amsterdam, Concertgebouw: The Messiah performed by the Netherlands Handel Society and the Netherlands Philharmonic, conducted by Jac Leerdam (Tue), Concertgebouw.

Ensemble Orchestral de Paris, conducted by Jean-Pierre Waller, Jose Sequeira-Costa, piano, Haydn, Beethoven (Tue). Salle Pleyel (43010830).

Orchestra de Paris, conducted by Daniel Barenboim, Vladimir Ashkenazy, piano, Berlin, Boulez, Beethoven (Wed, Thur), Salle Pleyel (4581807).

SPAIN
Barcelona: William Fong, piano, Beethoven, Chopin, Granados, Brahms, Ravel, Caixa de Pension, Passeig de Sant Joan, 108 (Tue).

Madrid, Wind instruments, conducted by Franz Cramer, Berg, Schubert and Mozart, La Union y el Fenix, paseo de la Castellana 33, (41 985 59) (Wed).

VIENNA
Vienna Symphony Orchestra, conducted by Semyon Bychkov, piano, Chopin, Shostakovich, Konzerthaus (72 12 11) (Mon).

Artis-Quartet, Beethoven, Webern, Schubert, Brahms, Schubert, Konzerthaus (Tue).

Ensemble Maurice Ravel and string orchestra of the French Music Institute, Maray, Barok, Merlet, Palais Clam Gallias (Wed).

Vienna Symphony Orchestra, conducted by Christoph Eschenbach, with a

do Gelber recital (Mon), Théâtre des Champs-Élysées (47247777).

Teresa Zylka Gara, soprano; Christian Vaidi, piano, Chopin, (Mon) TMD, Châtelet (42334444).

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King's Singers (Alice Tully): International Christmas music of the Renaissance, with works by Jachac, Massenet, Richard Strauss (Thur), Lincoln Center (332 1911).

Carnegie Hall: Cleveland Orchestra, Christoph von Dohnanyi conducting, with Alicia de Larrocha, piano; Zemlinsky, Mozart, Stravinsky (Wed), (247 7439).

Kaufmann Hall: Gary Schocker flute recital with Anthony Newman, piano; Telemann, Copland, Poulenc, Bach, Ravel, Prokofiev (Tue), 1385 Lexington Av (831 8803).

CHICAGO
Chicago Symphony Orchestra Hall: Erich Leinsdorf conducting; Rouse, Schuller, Franck (Thur), (435 8122).

Mozart Orchestra of Salzburg, conductor Hans Graf, piano, Eric Held, Tokyo Banka Kaikan (Mon) (498 0959).

Thomsonerchor and Gewandhaus Orchestra of Leipzig, Schütz, Handel, Bach, Mendelssohn, Schubert, St. Mary's Cathedral (Mon) (522 7711).

Harmut Kuyana (piano); Bach, Beethoven, Mozart, Francaix, Dno Hall, near Hibiya, Ginza (Wed) (571 1888).

DEUTSCHE Sinfonietta of Berlin: Fachelhel, Mozart, Mendelssohn, Wolf, Bartok, Shostakovich, College, Hiram Memorial Hall (Wed) (440 5541).

Kodo: Traditional Japanese music and dance. Theatre Apple, Shinjuku (Mon-Thur) (237 5558).

NEW YORK
New York Philharmonic (Avery Fisher Hall): Leonard Bernstein conducting, Harris, Schuman, Copland (Thur), Charles Dutoit conducting, Glenn Dickson, violin; Copland, Barber, Mussorgsky-Ravel (Thur), Lincoln Center (874 2424).

Utrecht, Muziekcentrum Vredenburg: Serge Raggiani, chansons (Wed); Chopin piano recital by Andrei Gavrilov (Thur); Recital Hall: Orlando Quartet, Haydn, Beethoven, Debussy (Tue); The Schönberg Ensemble, conducted by Reinbert de Leeuw, with Jans van Nes, contralto, Berg (Thur), (71 83 45).

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Mozart Orchestra of Salzburg, conductor Hans Graf, piano, Eric Held, Tokyo Banka Kaikan (Mon) (498 0959).

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Monday December 9 1985

A surfeit of takeovers

THREE THINGS can be said with some confidence about the takeovers sweeping through the London stock market. Like its predecessors, it will blow itself out in due course. It will damage some companies and benefit others. Government intervention to halt the process is likely to create more problems than it solves, except where it is aimed at clearly defined objectives, of which the maintenance of competition is the most important; the curbing of imprudent lending may be another.

What lessons can be drawn from past takeover waves? Many large acquisitions have not yielded the expected gains, usually because the purchaser underestimated the task of integrating the two businesses. Empire-building conglomerates tend to over-reach themselves in the end, as they need to make ever larger purchases to maintain the momentum of growth; the troubles of JTT, now busily selling off acquisitions made in the 1960s and 1970s, should be a warning to the likes of Hanson Trust and BTR. It is also worth noting that takeover activity plays a very small role in the two most successful post-war economies, West Germany and Japan.

Yet takeovers can have the effect of putting badly-managed assets to better use; the threat of a hostile bid can be a powerful stimulus to greater efficiency. While the bid fever in London and New York is unhealthy and there is justifiable concern about some of the short-term manoeuvres designed to ward off predators, it has not been firmly established that high level takeover activity deters companies from spending money on research or other long-term projects, or that companies which do invest for the long term are less highly valued by the stock market as a result.

The predator looking for poorly-managed companies has a valuable role to play. The Government should be more concerned about the financial conditions which have brought about the takeover boom than with tightening the merger rules in a way that might discourage hostile bids.

It is sometimes argued, on both sides of the Atlantic, that the scales are weighted too much in the predator's favour. In the US this reflects weaknesses in the takeover rules

which, among other things, do not give investors adequate time to consider the bid. In the UK the recent change in merger policy, putting more stress on competition, may have given a fillip to conglomerate mergers which are now less likely to be referred to the Monopolies Commission. It is still possible, nevertheless, for a target company, even with a less than outstanding record, to fight off an aggressor, as Powell Duffryn did when pursued by Hanson Trust.

A more important change has been the availability of finance to enable smaller companies to tilt at very much larger ones. In one sense this is good, since it puts pressure on the big, sleepy company which in the past has been comfortable in the knowledge that only very few fellow giants could contemplate a bid. The danger lies in the financing techniques used, and, in particular, the excessive reliance on debt. Interestingly, the Federal Reserve in the US has just moved to tighten the rules on "junk bonds," widely used to finance bids. The similar issues raised by Elders IXL's leveraged bid for Allied Lyons seem more appropriate for the banking authorities than for the Monopolies Commission to which the bid was referred last week.

Temptation
Some American observers believe excessive takeover activity is a direct cause of declining US industrial competitiveness; others see the takeover market as "a unique, perhaps the only, impersonal mechanism to accomplish the redeployment of assets continually required by changes in technology and consumer preferences." Perhaps the truth lies somewhere in between. Takeovers are a useful part of the market system, but they can be overdone. As a cure for sick companies, they are often less effective than a change in top management, engineered by non-executive directors or outside shareholders. As a strategy for expansion, they can be less rewarding in the long run than internally generated growth. Non-executive directors and investors need to be highly sceptical about claims for what is less rewarding in the long run than internally generated growth. Non-executive directors and investors need to be highly sceptical about claims for what is less rewarding in the long run than internally generated growth.

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Uganda's need for outside help

THE WAR in Uganda appears to be approaching a critical stage, with the rebel National Resistance Army (NRA) launching an attack on the besieged regular army garrisons in the towns of Masaka and Mbarara. If successful, this could be followed by a drive for the capital itself, Kampala.

As yet another chapter in Uganda's bloody history unfolds, it becomes all the more pressing that the international community should consider what it can do to help resolve a conflict in which ethnic divisions are a major factor. The NRA, led by Mr Yoweri Museveni, has won a reputation as a comparatively disciplined force, but it is unlikely to put its support to the test of the ballot box. But there are several armed factions in the country, all dependent to varying degrees on ethnic rather than national support.

Elections
The deep and often bitter divisions represented by these forces are unlikely to be resolved by the outcome of a single battle, however important.

The current talks in the Kenyan capital Nairobi, taking place under the auspices of President Daniel arap Moi's Government, have dragged over for three months deadlocked over the composition of a transitional cabinet, the allocation of portfolios in a coalition government, and NRA demands that those responsible for army brutality against civilians over the past years be brought to justice.

An NRA success on the military front may well encourage the insurgents to hold out for a greater say in the transitional administration. But even if the Nairobi talks succeed, Uganda will surely need outside help in moving towards the elections

that all parties claim to support. Perhaps not surprisingly, no outsider appears ready to volunteer. Tanzania embarked on a costly military exercise to overthrow Idi Amin in 1979 and is unlikely to be prepared to play any major part again. The body to which Uganda appeals for help, the Organisation of African Unity, has proved so ineffectual in other African conflicts that it appears ruled out as a suitable arbiter in the peace process. There are two African precedents, however, for a Commonwealth role in an African dispute. In Zimbabwe in 1979 the British-dominated monitoring force (which included Commonwealth contingents) oversaw the grouping of rival guerrilla armies into assembly places, and Commonwealth observers monitored the election which brought about Zimbabwe's independence.

In Uganda itself, their role proved more contentious. In December 1980 Commonwealth observers concluded that the elections which brought Milton Obote back to power were free and fair, despite charges of serious irregularities. Nevertheless, there is valuable experience to draw on. It was unfortunate that at the Commonwealth conference in Nassau last October the heads of state were so preoccupied with South Africa that no time was found for Uganda, where hundreds of thousands of lives have been lost.

The effort is worth making, humanitarian issues aside. Uganda is rich in natural resources, with enormous agricultural potential. The first two years of Mr Obote's second term in office, when he undertook far-reaching reforms with the backing of the International Monetary Fund and the World Bank, produced evidence that the country's potential could be realised.

What form Commonwealth assistance should take will depend in part on what Uganda's leaders are prepared to accept. Given the country's violent record over the past 15 years no one will underestimate the challenge. Nevertheless it may be time for the Commonwealth to consider how it can once again play a constructive part in resolving a conflict which involves one of its members.

ON Wednesday morning of last week the subject of acquisitions came up routinely at Hanson Trust's quarterly board meeting. The message was that apart from the continuing struggle to buy SCM in the US, the company saw nothing new on the horizon.

By 7 pm the following night, Lord Hanson had put together Britain's biggest takeover bid, a £1.9bn offer for Imperial Group, the tobacco, brewing and food group. The offer was made public on Friday night, bringing to a climax the most remarkable week ever in British takeover history, with bids valued at over £6bn launched for four major companies.

Hanson had been toying with the idea of an approach to Imperial for two years, but what spurred it into action was last Monday's news of a planned merger between Imperial and United Biscuits. With this announcement, "Imperial put up the 'for sale' sign," Lord Hanson claims.

But for the first part of last week Lord Hanson and his partner, Sir Gordon White—the man responsible for building up Hanson Trust's substantial US operations—seem to have had other things on their mind.

Although Lord Hanson has never shown the slightest sign of wanting to become a newspaper proprietor, he was approached along with a number of other leading businessmen, with a view to putting together a rescue package for the troubled Telegraph group of newspapers.

A meeting was called on Thursday afternoon at N. M. Rothschild, the merchant bank which acts for both Hanson and the Telegraph, to discuss the fate of the newspaper. A Telegraph deal was quickly ruled out and the talk turned to bigger things.

Imperial immediately rejected the resulting Hanson offer and there is every sign that the coming battle will be hotly contested. Nevertheless, Mr Geoffrey Kent, Imperial's chairman, and Lord Hanson have known each other for 20 years and appear to have a strong mutual admiration.

Mr Kent says that he informally asked Lord Hanson to join Imperial's board two years ago "because I think he was a good businessman. I think he was a good businessman."

Mr Kent says that he was interested in talking about the possibility of a closer link between the two companies. When Mr Kent flatly rejected the idea, Lord Hanson was willing to back off.

Since then, however, the two men have seen each other regularly. They sit side by side in the front row of the Bank of England, something which has caused wry comment from their fellow directors during the periodic waves of merger speculation about their two companies.

Mr Kent has been chairman of Imperial for four years and has brought about a major improvement in the company's previous lacklustre performance.

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Aged 63, he is a man with a craggy good looks, a deceptively diffident public manner and a husky voice which sounds as if it has been lipped by cigarette smoke.

He took over in traumatic circumstances: A boardroom coup in July 1981 led to the abrupt departure of his predecessor, Malcolm Anson, after just a year in office, amid slumping profits and dissatisfaction over Mr Anson's decentralised style of management.

Mr Kent, who came to the chairmanship promising "hands on management from the centre," began turning the sprawling and somewhat aimless corporate empire into a much tighter, more disciplined group. Imperial was divided up into 24 "strategic business units," which now form the reporting structure for top management, with performance against budget monitored closely by a computer programme developed in-house.

The impact was felt across the group's three UK divisions: tobacco, incorporating John Player and W.D. & H.O. Wills, which is still the mainstay of the group, accounting for about 50 per cent of operating profits; foods, which include Ross, the frozen food group, Young's Seafoods, Golden Wonder, the crisp manufacturer, and HP, the sauce business; and brewing and leisure which includes brewers Courage and John Smith, together with Anchor hotels.

Happy Eater restaurants and numerous retail outlets. In the tobacco division, for example, their has been a drive to rationalise and increase capacity, with a high rate of brand turnover, with particular emphasis on new lines in the fast-growing longer-than-kingsize area. This has helped Imperial hold on to its UK market leadership (it now accounts for about 40 per cent of total sales) against strong competition from Galaxie. However, the group's need to diversify away from

more than £230m, held back by strikes in the UK and by the dismal performance of its recent millstone—the Howard Johnson (HoJo) hotel and restaurant business in the US.

HoJo, bought in 1980 for \$800m, ranks among the most disastrous acquisitions ever made by a British company. It was controversial from the start, with many of Imps institutional shareholders questioning the company's judgment in paying nearly twice the hotel chain's previous stock market value. They were soon to be vindicated. HoJo's Orange Roof restaurant chain, for years starved of investment and out of touch with the market, proved to be a black hole into which Imperial poured cash but out of which it never generated financial success, while HoJo's overall profits performance deteriorated steadily.

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Imperial, by contrast, has already taken many of the painful steps necessary to prune its portfolio of businesses.

Hanson says there are no plans to get rid of any of Imperial's activities after the takeover and the assets will not be purchased at a knock-down price. The offer values them at roughly twice their book net worth.

Yet in other respects, the bid fits comfortably into a long established pattern of Hanson takeovers. Tobacco, brewing and food are low tech, low risk businesses, characterised by products that have a long life cycle and generate a great deal of cash. Like bricks or batteries, they are activities which offer little or no scope for long-term growth in volume, but they can rely on a solid underlying level of demand. Imperial also has some very valuable intangible assets, in the shape of its brand names.

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However, the two companies insist there is a strong industrial logic. Both have major interests in food, snacks, restaurant chains and frozen foods and see large benefits from combining their national distribution systems and food research and development effort.

For Imperial, a merger would cut its dependence on tobacco profits to one-third and give it an international leg through United's extensive US interests. For United, a deal would mean access to Imperial's strong cash flow, from tobacco, to fund its expansion as an international force.

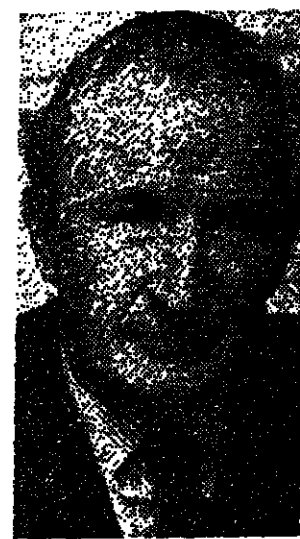
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THE £1.9bn BID FOR IMPERIAL

What made Hanson pounce

By Martin Dickson and Richard Lambert



Geoffrey Kent (left) and Lord Hanson (right) and, in the middle, Sir Hector Laing, chairman of United Biscuits

HOW THE THREE COMPANIES COMPARE

IMPERIAL	UNITED BISCUITS	HANSON TRUST
Turnover £4,460m (to 31.03.84)	Turnover £1,740m (to 29.12.84)	Turnover £2,670m (to 30.9.85)
Pre-tax profits £220.6m	Pre-tax profits £87.2m	Pre-tax profits £252.8m
Employees 92,000	Employees 41,000	Employees 67,000
Major interests: TOBACCO AND CONFECTIONERY: Players and Embassy cigarettes, Golden Virginia and St Bruno tobaccos, Famous Grouse liquors. FOODS: Ross frozen foods, Young's Seafoods, Golden Wonder crisps, HP and Daddies sauces. BREWING: Courage beers and pubs, John Smith's beers, Harp Lager. RESTAURANTS, HOTELS, SHOPS: Anchor Hotels, Harvester Steak Houses, Happy Eater restaurants, Finlay's newsagents.	Major interests: BISCUITS AND CONFECTIONERY: McVities, Ry-King, Crawford's Macfarlanes, Macdonalds, Carr's biscuits, Terry's chocolates. SNACK FOODS: KP nuts and snacks, own label crisps. FROZEN FOODS: McVities products. RESTAURANTS: Pizzaland and Wimpy chains. US: Keebler cookies and crackers. Specialty Brand spices and herbs, Early California Olives.	Major interests: UK RETAILING: Alders (formerly UDS): department stores, dry food shops, shoe stores. UK MANUFACTURING: Batteries (Ever Ready), bricks (London Brick), Butterley Building Materials, engineering (automotive equipment, meeters, brewing equipment, industrial rubber control equipment). US INTERESTS: Fabric and yarn manufacturing, footwear manufacturing, food products, building products, furniture, lighting, miscellaneous industrial products.

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The resulting merger proposal has not been particularly well received in the City, where it is widely seen as a defensive pact.

However, the two companies insist there is a strong industrial logic. Both have major interests in food, snacks, restaurant chains and frozen foods and see large benefits from combining their national distribution systems and food research and development effort.

For Imperial, a merger would cut its dependence on tobacco profits to one-third and give it an international leg through United's extensive US interests. For United, a deal would mean access to Imperial's strong cash flow, from tobacco, to fund its expansion as an international force.

Why does Hanson want Imperial? Superficially it is unlike the company's other UK takeovers, purchases like Brierley, which are seen as a way of diversifying away from the company's core business of food, snacks, restaurant chains and frozen foods and see large benefits from combining their national distribution systems and food research and development effort.

For Imperial, a merger would cut its dependence on tobacco profits to one-third and give it an international leg through United's extensive US interests. For United, a deal would mean access to Imperial's strong cash flow, from tobacco, to fund its expansion as an international force.

its \$830m offer for this New York-based maker of typewriters, chemicals and coatings has been snarled up in the law courts for weeks. Hanson lost a key round in the legal battle at the end of last month, yet is hopeful that the appeal which is now getting under way will go in its favour.

The outcome may be known by Christmas, and Hanson says that if it gets the go-ahead, it will definitely move ahead with an offer.

True, ambition is made possible by the way that the company has developed two separate structures in the UK and the US, with two effectively autonomous headquarters in London and New Jersey. While Lord Hanson is tackling Imperial, SCM is the responsibility of Sir Gordon White. The American acquisition, if it goes ahead, will be financed entirely in the US on terms and conditions that will not be affected by the offer for Imperial.

Moreover there is an argument that Hanson actually requires an acquisition on the Imperial scale in order to maintain its steady growth rate and high rate of return on shareholders' funds. It launched a jumbo \$519m rights issue in the summer—an offer which its shareholders did not receive with great enthusiasm—and it has to find ways of making these new funds earn their keep.

Last Thursday, Hanson announced that its profits in the latest 12-month period had climbed by nearly 50 per cent to £252.8m pre-tax. But commenting on the figures in the Financial Times, the Lex Column suggested: "Hanson Trust would not just like to make an acquisition in the UK; it quite simply needs one."

The broad lines of the coming battle are already clear. Hanson argues that the takeover/United merger is not a good deal for Imperial's shareholders, who

face a significant earnings dilution, and that Hanson's 250p a share offer compares favourably with the 200p which it says is implied for Imperial in the United merger terms.

Certainly, some City commentators have characterised the merger as more akin to a reverse takeover of Imperial, a comment which has infuriated Mr Kent, who says Imps is simply paying a premium to acquire a good business.

A merger with United would, he says, add "tens of millions of pounds" to the bottom line over the next three to four years. "There's no way," he says, "that we can see that Hanson can make that kind of improvement."

However, money on the table—be it that of Hanson Trust or another predator, perhaps from the US—may talk more loudly to shareholders than long-term industrial logic.

Culture change at ICL

Talk to Robb Wilnot and you get "a tour of the land of high technology." I was told. Talk to Peter Bonfield and you get "a thorough inspection of the kitchen."

It is these complementary skills and "kitchen" have made the workaholic architects of ICL's restoration over the past four years such an effective team.

The two men have worked together on and off ever since they both left the ranks of the former Financial Services Bill. Yet his name was virtually unknown in the City when in September, after little more than two years in the Commons, he was brought into the Government as Under-Secretary for Corporate and Consumer Affairs.

Mrs Thatcher's promotion of Howard, 44, surprised nobody at Westminster. The only question that had been how long it would take him to catch up with his contemporaries from the successful Cambridge/Bov Group generation of the early 1960s (including Leon Brittan, Norman Fowler, Kenneth

Clark, Norman Lamont—with whom he once shared a flat—and John Gummer). After election defeats in 1966 and 1970, Howard concentrated on his career at the bar. He specialised in planning and employment cases and became a QC in 1982.

He was elected for Folkestone and Hythe in 1983 and, able and articulate, immediately stood out from the rest of the Tory intake.

Howard's new post is unusually demanding—covering not only financial services but also competition policy and detailed consumer issues like product safety. He has already made a favourable impression in the Commons by his skilful handling of the row over a leak of information about the official attitude to the Scottish and Newcastle bid for Matthew Brown.

His main test of course, will come with the Financial Services Bill. After a recent visit to the US he has been reinforced in his belief in statutory-backed self-regulation but he faces growing Tory backbench pressure for stronger controls and, particularly, the inclusion in the Bill of Lloyd's (of which his underwriting membership is now in suspension).

The legislation will require all his QC's skills, not least since Labour's team will be headed by an equally clever lawyer, Bryan Gould.

Men and Matters

FOREIGN AFFAIRS: AFTER LUXEMBOURG

New faith in the old model

By Ian Davidson

THERE WILL be a good deal of shouting and railing in the European Parliament this week, to the effect that the modest package of reforms painfully negotiated at last week's European Community summit in Luxembourg is woefully inadequate and is, in addition, an insult to the Parliament's legitimate claim for a much more powerful role as the representative of European democracy.

Some Members of the European Parliament (MEPs) will argue that they must use their muscle to challenge the agreement as a whole, for example by blocking the Community's budget. Conceivably, the European Parliament could bring about the collapse of the entire edifice, if it persuades the Italian parliament to refuse ratification.

The MEPs have a sort of case for their complaints. The reforms drafted in Luxembourg are pretty modest by the standards of the most ambitious aspirations, in particular, they fall well short of the blueprint for an entirely new Treaty of European Union, which had been proposed by the Parliament itself. The member governments have agreed a modest increase in the Parliament's influence on Community decision-making, but the change will be small compared with the Parliament's own demand, for the right of co-decision with the Council.

Similar criticisms could be made of other parts of the package, as well. When push came to shove, few if any of the member states were prepared for really radical commitments. Many were anxious to secure exceptions which would protect narrow national interests. Majority voting will be more closely circumscribed than it might have been; there is a target date for the complete liberalisation of the internal market by 1992, but the date will have no legally binding force; the European Monetary System will at last be recognised within the treaty framework, but it will be bedged around with constraints which will make its further development, if anything, more difficult than it was before. In short, it's a rather modest package as Mrs Thatcher keeps reiterating, and one can have

some sympathy with those "good Europeans" whose realism remains undimmed, and who feel it ought to have been a bit more, well, exciting. After all, it is nearly 30 years since the Rome Treaty was first signed, and the world has moved on since then; if we're going to go through the effort of treaty revision and parliamentary ratification, at least let it be the occasion for a vibrant celebration of the European idea with reforms on a correspondingly ambitious scale. No one can get a thrill out of the minor adjustments which have finally emerged; most people will simply grasp that these adjustments are both modest and complex, and promptly lose interest in the whole question.

One can have sympathy with this point of view, not least because the Community was built, not by the minimalists, but by statesmen of imagination, courage and idealism. That idealism has suffered many severe setbacks these past 15 years; if the credibility of the European Community idea is to be revitalised, there seems to be a case for something bolder.

For better or for worse, this argument is anachronistic and misguided on at least three grounds. First, there is the strictly practical consideration of the parliamentary imperative. The would-be federalists may resent the ideological prejudices of foot-draggers like Denmark, Greece and Britain; modern man may prove too difficult. The European Parliament's idea, of a new Treaty which could be adopted and implemented by a majority of the member states, is simply a recipe for legal chaos.

Second, if it's the public credibility of the Community that is at stake, then the last thing we need is yet another grand declaration heavy with the whole question of the Community's history. The history of the Community is littered with heady communications whose solemnity was matched, in the event, only by their vacuity. It would be dispiriting to recall the many occasions on which the govern-



Faces from the summit: Jacques Delors (left), Bettino Craxi and Jacques Sauter

ments solemnly undertook to create an Economic and Monetary Union in the shortest possible time, or even the bewitchingly vague millennium of European Union tout court. What happened? Strictly speaking, nothing. Personally, I have a weakness for Euro-croch; but by itself, it is worse than useless.

Third, the vacuousness of the declarations of the 1970s has now been amply explained by the negotiations which concluded in Luxembourg. Over a decade ago, the member states were ready to make paper promises about a new target of Economic and Monetary Union; now it turns out that they have misgivings about living up to the more banal obligations of the Rome Treaty as it stands, and these misgivings are by no means confined to the newer or poorer member states.

Moreover, the stagnation of the past 15 years has prompted growing speculation over whether the Community model for integration is after all the most viable, let alone the only, model for the European enterprise. The resounding declarations of the 1970s showed that governments, psychologically and politically tied to the Community ideal, but events demonstrated that progress in

some areas was in fact easier outside the treaty framework, on a government-to-government basis, with varying numbers of participants. For example, we had the gradual co-ordination of foreign policies and the European Monetary System; more selective co-operative projects in technology, industry, space, civil aircraft and arms procurement; and more recently security policy in the resuscitated Western European Union.

Several ingenious concepts have been spawned to describe this pattern of events, and to predict its projection into the future: variable geometry, a two-speed Europe, a two-tier Europe, concentric circles, differentiation, Europe à la carte. And while the heads of government were negotiating in Luxembourg, I was reading a new book on this subject by Helen Wallace of the Royal Institute of International Affairs, called *Europe: The Challenge of Diversity*.

It is a searching and concise analysis of the central problem: which policy areas ought to be handled inside the Community framework, and which can be left to looser arrangements? As she admits, it does not admit easy answers. Free trade may produce losers as well as

assume new responsibilities; and with the legal discipline of an international court. Amid the buffeting of the 1970s, the collapse of Bretton Woods, two oil crises, inflation and unemployment, their successors gave a very different set of answers; their priorities became more nationalist, the Community marked time, and such European impetus as remained leaked out into variable geometry.

But that balance of priorities is not carved in stone. The Founding Fathers' simple model may have underrated the real difficulties of the integration process. But nothing tells us that the Community model is fated to hit a brick wall, and that the future lies in some form of variable geometry. It all depends on how governments respond to the big questions. The more importance they attach to Europe, the more they are likely to look to the Community model.

This is not to denounce variable geometry; it may often be a useful complement. But its political significance is determined by the state of health of the Community; if the Community is alive and well, variable geometry may be less necessary, and is certainly less threatening to the principle of European political solidarity.

From this perspective, the Luxembourg package needs to be judged by its overall thrust. The bargains, the exceptions, the reservations may seem a bit tawdry, but they are less significant than the general fact that the package represents a reaffirmation of the importance of the Community model; with independent institutions (and more majority voting and more democracy); with powers to assume new obligations (foreign policy, EMS and a free internal market by 1992); and with the legal discipline of an international court (whose role will be marginally strengthened). It only remains to be seen whether the governments will answer the big question in the same way in practice in the months ahead.

Europe: The Challenge of Diversity, Helen Wallace with Adam Ridley; RIA; Chatham House; £5.95.

Lombard

Tax relief for risk capital

By William Dawkins

THE British Treasury has a small problem. Despite repeated efforts to nudge the Business Expansion Scheme back on to its intended course, this flagship of the Government's small business policies—it offers generous tax reliefs for investment in unquoted companies—continues to get blown in the wrong direction.

Minor adjustments are not the answer; the good ship BES needs a complete refit. To be fair to its designers, the BES has gone some way towards fulfilling its aim of assisting small businesses which find it hard to raise equity from other sources.

After an unsuccessful launch as the Business Start-Up Scheme, which foundered because it was too restrictive, the BES soon made strong headway. Nobody with risk capital to spare could ignore the attraction of being able to offset the cost of buying unquoted shares against their top marginal income tax rate.

Yet the popularity of farming ventures last year and of property developers earlier this year shows that the scheme can all too easily be turned to uses for which it was never intended. Despite the fact that those two loopholes were quickly blocked, creative minds in the City of London continue to exploit—with increasing success—other cracks in the BES.

The past few months have seen a new flood of supposedly safe asset-backed issues—most of which are just raising money for stock or property—undetected by Inland Revenue attempts to interpret the rules more strictly.

They cover an exotic range of ventures, from racehorse breeders to dealers in vintage wine and antiques. The beauty of these types of ventures is that they allow investors to make money even if the value of their assets stays still.

In doing so, they indirectly use taxpayers' money to support businesses which are not of central importance to the economy, let alone to the Government's small business policies. Moreover, they make it harder for the more humdrum trading companies which are more representative of the small business sector, to attract BES investors' attention.

It is no accident that BES funds, which invest in a spread of businesses and tend to stay more in line with the scheme's real purpose, are finding it tougher to raise money this year than ever before. That is partly because no fund can yet pull a glowing success story out of its locker, though quite a few have their names pinned to one or two corporate wrecks.

Yet the Government would win friends among the small business community if it stopped tinkering around with loopholes and instead gave the scheme a comprehensive rethink. The funds, in particular, find it hard to compete against direct issues because they cannot offer instant tax relief. Their lives would be much easier if they could offer tax relief from the moment they get investors' money, rather than having to wait until the cash is placed with small businesses.

Originally perceived by the Government as a slightly undesirable participants in the scheme, BES funds are now proving their worth as sources of management advice for portfolio companies as well as a means of channelling City money into far-flung regional ventures.

While the asset-backed issues look as safe as the houses some of them invest in, they tend to offer less scope for performance than the riskier industrial ventures. This could be turned to the scheme's advantage if investors were rewarded for putting money into businesses with high growth prospects, rather than being rewarded for just getting their money back.

The way to achieve that would be to allow investors to sell BES shares free of capital gains tax. Something like that method has already been tried on a broader front in the US, where capital gains tax reductions in the late 1970s were followed by instant surges in venture capital investment.

The same medicine applied to the BES would not only boost overall investment in the scheme; it could also leave dealers in vintage wine and antiques looking rather less attractive as tax-efficient investment propositions.

Pension fund surpluses

From Mr A. Wilkie

Sir—Mr Chappell (November 29) may enjoy his quip at actuaries, but his own simple arithmetic still fails to get a quart out of a pint pot. If pension funds and life offices were to have 50p less income, they would have 50p less to invest somewhere. It is not obvious that companies with £3.25bn extra to invest would do it in the same way as their pension funds.

At least he and I agree that this would be primarily a question of shuffling financial assets. There would be no possibility of using £3.75bn of tax from this source to reduce income tax, without causing other major effects.

This discussion, however, is quite hypothetical. It has not been possible to study the article published by London Business School on which you reported on November 25. Sadly, it is a prize example of a little learning being a dangerous thing. The authors have so misunderstood the workings of pension funds, and the significance of the statistics they have used, that their results must be treated as wholly spurious.

Their figures include the ordinary life business of life offices, the assets for which are at a quarter of their total of £250bn. Investment profits here are passed on to policyholders. The tax treatment is quite different from that of pension funds.

They appear to assume that the liabilities of pension funds rise with price inflation whereas most accruing pension fund benefits are linked to salaries. To allow for this alone would eliminate most of the purported surpluses.

They appear to assume that there have been no benefit improvements over the period since 1972, no move towards index linked or discretionary increases in vested pensions or deferred pensions, and that the Social Security Pensions Act 1975 (Serps and contracting out) has had no effect.

They ignore the fact that, if asset values rise because of a fall in interest rates or yields, it is necessary to assume that future contributions will be invested at these higher prices and so will earn lower returns. The methodology of their calculations on the effect of redundancies seems highly suspect; it is to be explained in detail in a future paper. But as already pointed out in an article by Eric Short (November 29), among larger schemes the cost of enhanced pension for early retirement has tended to cancel out profits from redundancies at young ages.

It is unfortunate that a serious attempt to use national financial statistics to interpret the true position of pension funds should have run into so many difficulties. I hope the

Letters to the Editor

authors of the LBS article will be willing to learn something about how pension funds really operate and then try again.

A. D. Wilkie,
R. Watson & Sons,
Watson House,
London Road,
Reigate, Surrey.

Monopoly on monopolies

From the Director,

National Consumer Council

Sir—Like Dr Irwin Stelzer,

December 5, this council

believes that the privatisation

of monopoly utilities means that

the whole question of regulation

needs to be rethought. A

single regulatory body would

have a number of advantages

compared with a series of mini-

regulatory agencies. It would

be able to carry out com-

parisons between the different

utilities; it would be more cost-

effective, avoiding duplication

of staff and resources; and it

would find it much easier to

resist "capture" by the individual

industries it is set up to control.

We also agree strongly that

the regulatory body should be

able to carry out detailed in-

vestigations into industry per-

formance and to adjust the

price control formula accord-

ingly. The weakness of the price

regulation method applied to

BT is already becoming painfully

obvious. These problems

are inevitable in any system

that relies on guessing five

years ahead, while the "correct"

rate of price rises should be.

It is understandable that both

the privatised monopoly

utilities and Government wish

to avoid the lengthy legal

wrangles that sometimes beset

US regulatory procedures. To

argue from this that there are

no lessons to be learned from

the US is to throw the baby out

with the bathwater.

Jeremy Mitchell,
18 Queen Anne's Gate, SW1.

Disagreeing with

Dr Stelzer

From Mr M. Richardson

Sir—As part of our work as

financial advisers to the Secre-

tary of State for Energy on the

privatisation of BGC, N. M.

Rothschild and Sons have ad-

vised the Department of Energy

on the proposed regulatory sys-

tem primarily lies in the very different environment of the USA, has not been involved in our work for the Government at all and has not seen any papers on BGC privatisation.

Dr Stelzer was, therefore, not aware of HMG's carefully prepared proposals on regulation when he met a journalist from the Financial Times some two and a half weeks ago, before either the Bill or the draft licence was published. I would like to make it clear on behalf of N. M. Rothschild and Sons, in the light of our detailed work on the proposed BGC regulatory system, that we do not agree with the views attributed to Dr Stelzer in the Financial Times of December 5.

Michael Richardson,
N. M. Rothschild and Sons,
PO Box 185,
New Court, EC4.

Smoking and health

From Sir John Mallabar
Sir—I have read with a mixture of amusement and irritation Mr Tennent's letter (December 2) on the evils of tobacco. Would he not have made a good inquisitor in the high days of the Inquisition?

Let us consider his case. Is it fact that Government has not taken action to prevent people smoking because it fears loss of revenue? Could it not be that it respects the right of those of us who wish to smoke to do so? Would Mr Tennent argue that since road accidents cause many deaths the petrol tax should be doubled each year until few cars remain on the roads?

It is with the greatest diffidence that I would question the views of the Health Education Council and those of the British Medical Association. But I am an old man and started to smoke during the 1914-18 war. In 1914 matches cost about two old pence for a dozen boxes and were in plentiful supply and (here I write from memory and am open to correction) the duty on matches was increased in 1915 or 1916. In consequence, and as matches came into short supply, petrol lighters (often made from empty 303 cartridge cases) came into use, and later were followed by gas lighters. Today few cigarette smokers use matches, although most pipe and cigar smokers do so.

Dynamite is pretty harmless unless matched to a detonator. Has the BMA proved that it is cigarettes and not the means of their ignition which is the cause of deaths from lung

cancer? The fumes from burning petrol or gas are hardly healthy. What has been the effect of taxing matches? I do not claim to know—I only question.

(Sir) John Mallabar
39 Arlington House
St James's, SW1.

Complex factors in buyouts

From Dr S. Green

Sir—Your article on US leveraged buyouts (December 5) quite rightly points to management attitudes as a key ingredient in the success of buyouts. The reasons you adduce, however, for why managers change their spots are not altogether borne out by research we are currently undertaking in the strategic capabilities of UK buy-

Entrepreneurial professional managers as often make buyouts, as buyouts make entrepreneurs. We have found that in large UK buyouts of distressed subsidiaries, the prospect of financial rewards or losses is not the prime motivator. Rather, there is a complex web of factors at work: the challenge of controlling a business unhampered by the culture of policies of a parent company; the freedom from autocratic corporate policies geared to the whole rather than the specific needs of the subsidiary; the greatly increased visibility of managerial efforts and skills; the enhanced mutual interests of senior executives; to mention just a few.

It is one of the lingering management myths that the prospect of an economic trinket is the galvanising incentive for what Adam Smith terms "the anxious vigilance for other people's money."

Dr Sebastian Green,
Centre for Business Strategy,
London Business School,
Suzsex Place, NW1.

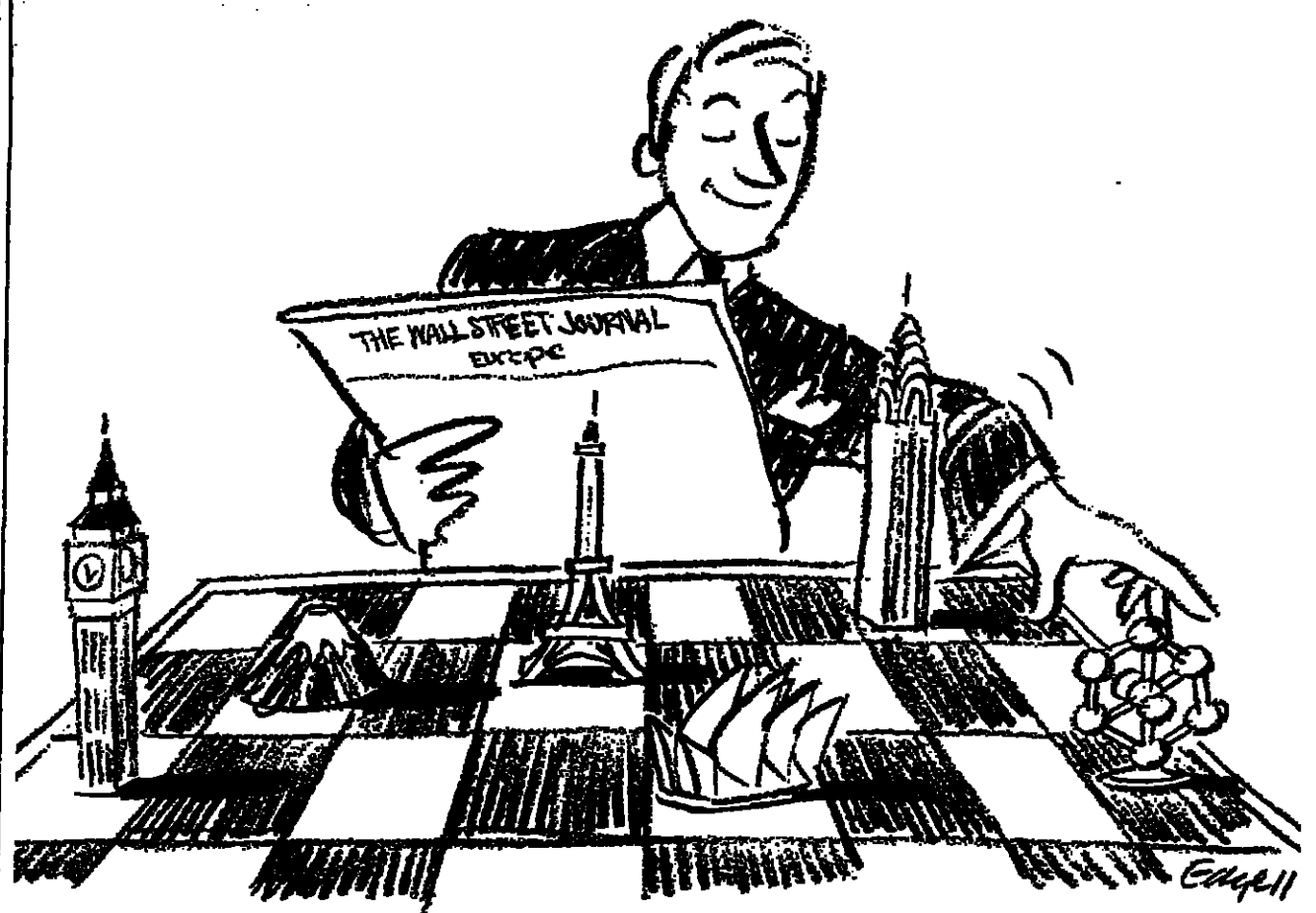
Mortgage tax relief is an illusion

From Mr W. Murphy,
Sir—Church leaders have it all wrong. It is tenants paying rent who are subsidised and not owners paying mortgage interest.

Rents are subsidised, perhaps by direct government subsidy or by many landlords who are restrained by rent controls. Mortgage tax relief on the other hand is an illusion as there is no such thing to believe otherwise is to fail to understand the basic principle of our tax system. Work it out for yourself: if I pay mortgage interest I have already spent the money with which I should have paid tax if I had not paid interest, so what have I saved?

Men of letters should not try to figure—they are no good at it.

W. Murphy,
17 Montague Drive,
Loughborough, Leics.



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Go STRAIGHT TO THE TOP

Among the superfunds are investment advisers, banks, insurance companies, pension funds, universities and mutual funds. Pole position is held by Bankers Trust, with a portfolio value of more than \$8.8bn, followed by Wells Fargo at \$7.57bn and Bank of New York at \$7.17bn.

The bulk of their investments are in the large capital markets traded on the New York and American stock exchanges. However, last year alone, an estimated \$2.5bn to \$800m worth of shares were withdrawn from the market as a result of leveraged buyouts, mergers and buyback schemes, and the trend has continued. That has created an incentive for the institutions to seek out new investments.

A high-contrast, black and white photograph of a mechanical device, likely a camera or projector. The image shows a central lens assembly with a textured, possibly metallic, housing. Below this central unit are two large, circular components, possibly lenses or filters, each with a central circular element. The entire device is mounted on a dark, rectangular base. The image is characterized by extreme contrast, with deep blacks and bright whites, giving it a graphic, almost abstract quality.

[illegible]

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Monday December 9 1985

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EURONOTES AND CREDITS

BAT Industries brings note issuance facility back into line

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

BAT INDUSTRIES of the UK is to restructure its \$240m note issuance facility arranged last year along more conventional lines as part of a plan to extend its maturity from 1990 to 1992.

The facility attracted attention when it was announced by Citicorp because it was the only one yet to be launched without an annual facility fee for underwriters.

Instead, participating banks took on a commitment to bid for paper issued by the company but there was no upper limit to the rates they could offer. The envisaged restructuring incorporates both an annual fee - of 5 basis points - and an upper limit on note yields of 15 basis points.

The change indicates how far the note issuance facility has become a standardised product in such a short space of time. The original structure appeared to have one drawback: although participants were protected by the lack of an upper limit on note yields, they still had a commitment on their books for which they were not being paid. BAT Industries, which has not used the facility, also ran the risk that it would have to pay over the odds in an adverse market.

The new BAT structure may have brought its deal more into line with other note issuance facilities, but bankers could be forgiven for thinking last week that the facility itself was on the way out as a new flood of Eurocommercial paper deals surfaced.

This sector of the market has now built up a powerful momentum which appears to be feeding on itself. Borrowers have realised that it is a low cost way of raising money that actually works. As the market has grown in depth, few want to be left behind and investment bankers, mindful of the bonuses they can earn from winning such mandates, even less so.

The largest of the new deals was

EUROMARKET TURNOVER				
Turnover (\$m)				
Primary Market	Strait	Conv	FRN	Other
US\$	2,748.2	278.8	5,277.3	248.0
YTD	4,088.0	—	5,716.5	285.5
Prev	528.3	280.7	1,785.6	145.0
Other	1,227.4	—	1,405.6	11.6
Secondary Market	Strait	Conv	FRN	Other
US\$	14,880.5	1,336.0	12,678.3	2,167.9
YTD	27,747.5	1,082.5	12,858.4	2,358.4
Prev	5,717.9	287.3	2,948.8	1,071.1
Other	4,793.4	68.3	1,186.5	1,855.4
Credit	Strait	Conv	FRN	Other
US\$	12,028.0	91,891.9	44,011.9	—
YTD	15,504.6	27,941.2	58,945.8	—
Prev	5,844.8	7,025.2	13,845.9	—
Other	5,844.8	5,910.5	10,588.4	—

Week to December 5 1985 Source: AIBD

a \$500m programme for the State Bank of New South Wales for which Credit Suisse First Boston, Merrill Lynch, Morgan Stanley and Solomon Brothers will be joint dealers.

Morgan Stanley and Shearson Lehman Brothers International also launched a programme for Pacific Financial, an arm of the US truck manufacturer which plans its debut in the Eurobond market with a \$100m issue in the new year. Pacific will use the programme as an alternative to its \$320m US domestic programme and to provide bridging finance for bonds issued under its self registration programme in the US.

Citicorp has meanwhile been appointed sole dealer for a \$200m programme for Italy's Banco di Santo Spirito as well as for a \$150m Union Bank of Norway programme and a \$50m programme for Bell and Howell of the US. With Merrill Lynch it is arranging a \$150m programme for Skopbank of Finland.

Merrill Lynch has been appointed dealer for a \$100m certificate of deposit (CD) programme for First Austrian Bank, the first such facility for an Austrian institution. There

is little practical difference between CDs and Eurocommercial paper, but in this case the CD vehicle was chosen for Austrian regulatory reasons.

Last week also saw the launch of note issuance facilities including a \$200m, five-year deal led by Chemical Bank for Associated Dry Goods Corporation, the US clothing retailer. This carries a facility fee of 10 basis points which rises to 15 points on amounts drawn in excess of \$50m. The margin on drawings is 15 basis points.

MEPC, the UK property company, launched a £100m, seven-year revolving facility through N. M. Rothschild which carries a 25-point facility fee and a similar maximum margin. By the standards of deals elsewhere in the market this facility also offers a high front-end fee of 15 basis points.

Finally, Industrial Development Bank of India has launched the first ever tax-spared deal in the form of a \$25m facility through S. G. Warburg and Dean Witter.

The facility fee on this 10-year deal starts at 10 basis points and rises after four years to 12.5 points, but lead managers are not disclosing how the notes will be priced to take advantage of tax sparing which allows lenders to take a tax credit in the UK even though no withholding tax has been paid in India.

Among deals already in the market the \$300m, 10-year facility for Italy's Enel has been heavily oversubscribed despite its fine facility fee of 5 basis points. It had attracted \$520m in commitments by Friday night. Also oversubscribed is the US bankers acceptance facility for the Soviet Foreign Trade Bank. The \$700m facility for Gaz de France has made a strong start in syndication despite initial squabbling among lead managers over the allocation of roles within the group.

INTERNATIONAL BONDS

Floater in a sorry state towards year-end

CHRISTMAS cannot come too soon as far as the Eurobond market is concerned, writes Maggie Urry in London.

"I wish it was all over," said one trader last week, looking forward to a busy January. New issues are still coming, but most are not going very fast.

The approaching year-end is one reason behind the sorry state of the floater market. Banks are sorting out their balance sheets for the annual snapshot and traders are trying to square their books. Last week prices were initially hit quite hard, although by Friday some cheap buying had come in to settle the market.

The slightly inverse yield curve has hit mismatch issues, where investors pick up the difference between one and three or six-month rates. Issues with a "higher of" coupon fixing, which gives protection against a downward sloping curve, have fared better than the others.

Another factor has been indignation from the new paper issued in the last few weeks. Investors are taking a tougher line on the quality of the credits they are buying, with some disenchantment emerging with the US savings and loans and regional banks which have formed a large part of the issuing activity.

A rest from new issues would

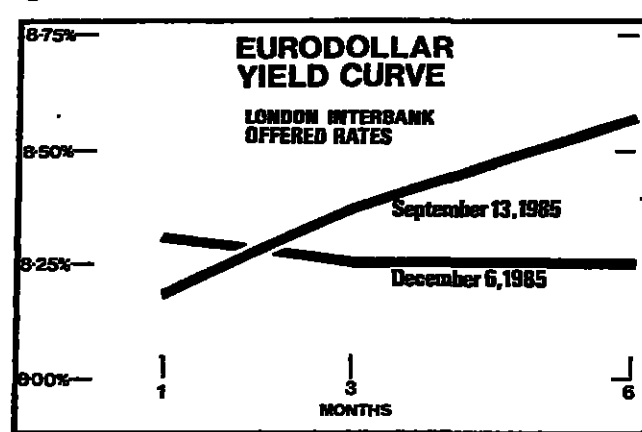
help the market and that wish could come true. There are rumours of deals coming with Belgium a prime candidate, but not as many as usual.

The same is not true of the D-Mark floater market, which has not recovered from the shock of the December new-issue calendar with eight deals on it. Already one for Bank of Nova Scotia is reported to have been postponed and more could be and that news gave a little comfort on Friday.

Traders say that the market - which opened with the liberalisation of the West German capital markets in May this year - is just too young and unsophisticated to cope with the number of issues that have come. "There's an educational process the banks must go through," one West German banker said. "No German bank has any placing ability in floaters, they have never done it before."

The market in D-Mark floaters is made in London by the houses which already trade Eurodollar floaters. Investors are mostly the same for the two currencies and a sizeable demand within Germany has not yet developed.

In addition, capped floaters, where a maximum coupon is set - and many of the D-Mark issues are capped - have been unpopular with



the few thousand dollars' cost of obtaining a credit rating, and a double A at that, was well worth it as the borrower got away with a cost of funds close to gilt-edged yields. The bonds were still comfortably within fees at the weekend despite a weak gilt market.

The brightest spot in Europe is the D-Mark equity-linked issues which seem rapidly to trade at a premium to issue price. Asko Finance's deal with equity warrants, issued at par, was trading at 107 1/4 on Friday. The company is a discount retailer in Germany.

The Swiss franc foreign bond market is lagging behind the domestic bond market, partly because of an excess of supply of paper at a time when investors are buying Christmas presents not bonds. Prices gained about 1/4 point last week.

New issue activity could slow down as the terms for swaps, which have driven many deals, are deteriorating once more.

● The Bond Aid appeal for the Save the Children Fund has got off to a good start, with pledges already coming in. The organisers say that the continental European banks have been much quicker to respond than their London counterparts. Closing date is December 19.

Dispute over Mobil's Canadian acquisition resolved

THE CANADIAN Government and Mobil Oil have resolved a protracted dispute over official approval for Mobil's acquisition of the Canadian assets of Superior Oil, writes Bernard Simon in Toronto.

Miss Pat Carney, Energy Minister, said that in exchange for Government sanction of the takeover, Mobil had agreed to give Canadian investors an opportunity to buy some of its oil and gas properties in western Canada over the next four years and to step up exploration spending in Canada.

The properties to be offered for

sale are estimated to be worth about C\$350m (US\$250.7m). Mobil agreed last month to dilute its interest in oil and gas deposits off Newfoundland and Nova Scotia to ensure Canadian majority ownership.

The dispute with Mobil over the terms of the Canadian Superior acquisition has been one of a handful which has marred efforts by the Progressive Conservative Government to make Canada more attractive to foreign investors since it took office in September 1984.

Although fewer investments are subject to official vetting, the Gov-

ernment has demonstrated as much determination as its predecessors to protect, and if possible increase, Canadian ownership in such sensitive industries as oil and gas.

Ottawa's approval is required for changes in control of foreign companies with assets of more than C\$50m. Mobil acquired the US parent of Canadian Superior oils in early 1984.

Miss Carney said Mobil's undertakings reflected the Government's "flexible and balanced" approach to indirect acquisitions in the energy sector. Mobil's Canadian subsidiary

is the only integrated oil company in the country wholly owned by foreign interests.

● ALCAN ALUMINIUM has sold its Montreal-based Saguenay Shipping business to Stinnes Investments, a Canadian-owned shipping, marine construction and real estate group which has links with Hugo Stinnes Group of Hamburg, writes Bob Gibbons in Montreal.

Alcan would not disclose the price, but the deal is part of a programme to sell assets not required for its core metals business. Shipping industry estimates put

revenues of Saguenay, which has about 13 chartered vessels, at about C\$40m a year. No ships are included.

Saguenay began by bringing bauxite from the Caribbean to Alcan's Quebec smelters 125 miles north of Quebec city, taking export ingots back and picking up general cargo. General cargo traffic is now predominant.

Stinnes will expand Saguenay Shipping Services to the Caribbean, Europe and Latin America, complementing them with its existing shipping lines.



Ente Nazionale per l'Energia Elettrica

U.S. \$300,000,000

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New Issue • November 28, 1985

INTERNATIONAL COMPANIES and FINANCE

CORPORATE FINANCE

How SEK funds at one point below Libor

AMONG THE more closely guarded secrets in the Euro-markets these days are the rates that can be achieved by borrowers who raise fixed-rate money and then swap it into floating-rate debt. Everybody knows the rates are well below Libor, the London interbank offered rate for Eurodollar deposits. The question is: how much lower?

According to Mr. Bernt Ljunggren, deputy managing director of Swedish Export Credit (SEK) and an expert in using the swap market, the answer is a surprising full percentage point. This is now the level that SEK expects to reach when it enters the swap market.

"It's not easy. In fact it's very difficult but I think in the majority of cases we do reach

that level," he says. It may also be a level which larger sovereign borrowers cannot hope to emulate because their total needs are much larger and they cannot afford to push the bond market too far.

SEK, which is half state-owned but does not carry a Swedish government guarantee, borrows between \$1bn and \$1.5bn a year to finance Swedish exports. Since 1980 it has swapped most of its borrowings and has to date carried out some 135 individual swaps.

The advantage of swapping, according to Mr. Ljunggren, is that it becomes possible to separate funding and lending activities to the maximum advantage of its customers. It can borrow fixed-rate funds when a good market opportunity arises, swap into

low-cost floating-rate dollars, put them in the bank at a profit and then swap them back into a fixed-rate currency when they actually need to be lent.

In this way Swedish exporters can be offered five-year fixed-rate dollar financing at rates as low as 1/2 point over the US Treasury note rate. But it only works because the swap had been arranged in the first place. SEK could not hope to achieve the same rate if it started off, for example, by borrowing floating-rate funds.

For medium-term needs it does not do so, although it does have about \$1bn of borrowings in the US commercial paper market which are used for short-term liquidity needs.

However, Mr. Ljunggren says he shares the concerns of major central banks about the

hidden credit risks in swap operations. SEK always checks out its counter parties and monitors its swap exposure continuously. It has never had a counter party default.

Paradoxically, he adds, there are situations in which he wishes this would happen. For example, if a counter party (the other borrower which has swapped its debt with SEK) is paying him a stream of fixed-rate interest at say 10 per cent. he starts to forfeit money if rates generally rise to 12 per cent.

In that situation it is almost impossible to unwind the swap. But if the borrower did default it could easily be replaced with one paying a higher rate of interest. Conversely, Mr. Ljunggren argues, the real credit risk is that a counter party might

default when interest rates are falling. Since SEK started using the swap market, the discounts it has been able to obtain on Libor have widened steadily. Now, however, the market has become more crowded and it may prove harder to keep up this momentum. Also the recent rise of the yen has made it much harder for SEK to raise cheap fixed-rate dollars through private placements in Japan which is the source of some 80 per cent of the borrowings it swaps into floating-rate debt.

On the other hand it will always be possible to swap at a profit so long as investors in the fixed-rate bond market prefer A.A. and A.A. rated credits, while banks in the floating-rate market are less discriminating.

Peter Montagnon

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Ar. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Agromoto 11	80	1990	5	5 1/2	100	Wells Fargo (Europe)	5.375
Agromoto 11	40	1990	5	5 1/2	100	Deutsche Bank	5.375
Agromoto 11	150	1990	5	5 1/2	101 1/4	Goldman Sachs	5.375
Agromoto 11	200	1990	5	5 1/2	100	Morgan Guaranty	5.375
Agromoto 11	20	2000	15	5	100	SG Warburg	5.000
Agromoto 11	100	1990	12	10 1/2	99 1/2	Kidder Peabody	10.250
Agromoto 11	200	1990	7	8 1/4	100	Morgan Stanley	8.750
Agromoto 11	230	1992	4 1/2	1/4	100	Morgan Stanley	10.250
Agromoto 11	100	1990	10	10 1/2	101 1/2	Morgan Stanley	10.250
Agromoto 11	100	1991	5	8 1/4	100 1/2	Merrill Lynch	8.619
CANADIAN DOLLARS							
Cryder 11 (US) 1	75	1993	7	11	100 1/4	Orion Royal Bank	10.947
AUSTRALIAN DOLLARS							
Bank Group 1	75	1995	10	(10-11)	100	SBIC	14.000
Bank Group 1	50	1991	5	14	100	Bankers Trust Int	14.250
Bank Group 1	75	1989	3	14 1/4	100	Bankers Trust Int	14.250
Bank Group 1	50	1991	5	14	100	WestLB	14.250
NEW ZEALAND DOLLARS							
Bank Group 1 (NZ) 1	40	1988	3	10	100 1/4	Bankers Trust Int	17.057
DEMARS							
Bank Group 1	120	1991	5 1/2	2 1/4	100	Commerzbank	2.750
Bank Group 1	150	1995	10	2 1/4	100	Commerzbank	2.625
Bank Group 1	250	1990	10	3	100	Deutsche Bank	3.000
Bank Group 1	200	2001	15	6 1/4	100	Deutsche Bank	6.750
Bank Group 1	150	1995	10	7 1/4	99 1/2	Deutsche Bank	7.181
Bank Group 1	100	2015	30	8	12 1/2	Deutsche Bank	7.037
Bank Group 1	25	1990	5	(3)	100	Deutsche Bank	3.000
Bank Group 1	150	1993	7	3	100	Deutsche Bank	3.000
Bank Group 1	100	1991	5	1/4	100	Commerzbank	5.500
SWISS FRANCES							
Bank Group 1	150	1996	—	5 1/2	100	Bank Paribas (Swiss)	5.575
Bank Group 1	80	1990	—	2 1/4	100	UBS	2.875
Bank Group 1	150	—	—	5 1/2	99 1/2	Kreditbank (Swiss)	2.250
Bank Group 1	30	1991	—	2 1/4	100	Swiss National Bank	2.575
Bank Group 1	80	1990	—	2 1/4	100	Bank Leu	5.488
Bank Group 1	200	1995	—	5 1/2	99 1/2	Bank Leu	6.000
Bank Group 1	80	1991	—	8	100	Bank Leu	5.544
Bank Group 1	80	1990	—	2 1/4	100	Bank Leu	5.544
Bank Group 1	150	1992	—	5 1/2	99 1/2	Bank Leu	5.544
Bank Group 1	50	1990	—	2 1/4	100	Bank Leu	5.544
Bank Group 1	20	1990	—	5 1/2	100	Bank Leu	5.544
Bank Group 1	214	1992	—	5 1/2	99 1/2	Bank Leu	5.544
Bank Group 1	80	1991	—	(2 1/4)	100	Bank Leu	5.544
Bank Group 1	80	1990	—	5 1/2	100	Bank Leu	5.544
ECUs							
Bank Group 1	30	1994	8	8 1/4	100	BGL	9.125
Bank Group 1	50	1989	3 1/2	8 1/4	101	Bank Paribas	8.250
STERLING							
Bank Group 1	60	1993	7	10 1/2	100	SG Warburg	10.875
Bank Group 1	100	1998	12	1/4	100 1/2	Morgan Guaranty	10.752
Bank Group 1	50	1995	10	10 1/2	99 1/2	Baring Brothers	10.752
GULDERS							
Bank Group 1	150	1998	5	7 1/4	100	ABN	7.250
YEN							
Bank Group 1	220	1995	10	8 1/4	101 1/4	Bank of Tokyo	8.063
Bank Group 1	220	1995	10	8	101 1/4	Bank of Tokyo	7.779
Bank Group 1	100	1995	5	8 1/4	101 1/4	Bank of Tokyo	8.067

* Not yet priced. † Final terms. ** Private placement. † Floating rate index. ‡ With equity warrants. § With bond warrants. ¶ Additional 2.40m top for 1 yr. (b) 1/4 over 3m Libor. (c) 1/4 over 6m Libor. (d) Additional 2.25m top. (e) 1/4 over 9m Libor, maximum coupon 7 1/4%. Note: Yields are calculated on a 360 day basis.

Promising launch for Ecu options in Amsterdam

BY LAURA RAUN IN AMSTERDAM

THE WORLD'S first option on the European currency unit (Ecu) has been drawn up by a team of traders, fuelling a drive to internationalise by the Amsterdam-based European Options Exchange (EOE).

The Ecu option began trading last Thursday with a volume of 258 contracts, more than the dealings in gold, silver or the D-mark. Although turnover fell sharply the following day, compared with the well-established issues, the launch was promising.

The contract is for Ecu 10,000 and is priced in dollars, with expiry periods of three, six and nine months. Even longer expiry periods are under consideration. The March call option with an exercise price of \$84 per Ecu 100 closed on Friday at \$4.30.

The Ecu, a basket of nine European currencies, has gained importance in the international capital markets, while an interbank deposit market is developing alongside. It is also enjoying growing popularity as a commercial currency, with France using it to pay for Dutch gas, and as a retail currency, for example to denominate travellers' cheques.

Option contracts—the right to buy or sell a certain amount of underlying value at a specified price during a given period of time—are used primarily to offset risks from movements in

underlying value. The London and Philadelphia stock exchanges are expected to introduce Ecu contracts soon and may seek to link their trading so that a position opened in one exchange can be closed in the other, known as fungibility.

The EOE plans to link its Ecu trading with the Montreal Stock Exchange when an identical Ecu/dollar contract is introduced there in the near future, allowing dealings 16 hours a day. Montreal and the EOE already offer the first fungible currency option, a sterling/dollar contract. Along with the Vancouver and Sydney Stock Exchanges, Montreal and the EOE were also the first to create nearly round-the-clock trading in gold and silver options.

Mr. Pierre Pflimlin, president of the European Parliament, said on opening day that he hoped the Ecu would soon be quoted on futures markets as well. The London International Financial Futures Exchange is believed to be considering a futures contract on Ecu deposits while the New York Mercantile Exchange is thought to be studying a futures contract on a cash amount.

Last month, the EOE introduced the world's first cross-rate option, a sterling/guilder contract for \$10,000 which is priced in guilders.

Caterpillar to spend \$600m on automation

BY TERRY DODSWORTH IN NEW YORK

CATERPILLAR TRACTOR of the US is embarking on a four-to-five-year \$600m modernisation programme to automate its 21 manufacturing facilities worldwide, according to Mr. George Schaefer, its chairman, AP-D reports from Peoria, Illinois. He added that "the chances for an operating profit in the fourth quarter are pretty good." Caterpillar recorded a \$261m loss in its fourth quarter a year ago, which included substantial write-offs.

Caterpillar expects its 1986 capital expenditure to rise by 42 per cent to \$320m. Of this, \$158m will be used to introduce new technologies in principal manufacturing facilities. "The payoff will be significant," Mr. Schaefer said. He added that because of subsequent cost savings the modernisation programme should pay for itself.

Currently the company purchases 16 per cent of its parts from overseas producers. Mr. Schaefer expects that to increase to about 25 per cent by the end of 1987. He expects reductions in the white-collar workforce of as much as 5 per cent in 1986 from its current level of 22,750, but only a "slight" reduction of blue-collar workers.

Mr. Schaefer said that since no major growth is expected in the heavy construction equipment market, the company is looking at other markets.

Breakthrough in Manville asbestos claim wrangle

BY TERRY DODSWORTH IN NEW YORK

LAWYERS have resolved one of the main hurdles to a resolution of the long legal wrangle between Manville, once the world's leading asbestos producer, and thousands of victims of asbestos-related illnesses in the US.

The agreement between the company and Mr. Leon Silverman, a lawyer representing future plaintiffs for health-related claims, marks a significant breakthrough in the bitter litigation in the case, one of the largest ever fought over product liability in the US.

If other less pressing claims against the company can be resolved by the deadline of January 22 established by the courts, Manville may be able to emerge next year from Chapter 11 bankruptcy proceedings. In August 1982 the company filed to protect itself from its creditors while the asbestos claims were being heard. At

that time it was regarded as financially sound, but was facing more than 16,000 individual damages claims from victims demanding more than \$12bn in total. This was to be in compensation for illnesses caused by exposure to asbestos.

Although Mr. Silverman has not released details of the settlement plan, it is believed to incorporate elements of previous proposals aimed at providing \$2.5bn for present and future asbestos victims. A further \$125m or more is likely to be allocated for property damage caused to organisations—particularly schools—which have had to remove asbestos insulation from their buildings.

It is not clear yet how creditors and shareholders will respond to the proposed settlement, but there may be objections from both groups since they stand to lose heavily if the suggested terms are agreed.

Viacom buys CBS TV station

BY TERRY DODSWORTH IN NEW YORK

VIACOM INTERNATIONAL, the US media and cable television group, is taking a new expansionary step with the acquisition of a St. Louis television station from CBS—a move widely seen as a further attempt to make itself less vulnerable to takeover, writes Terry Dodsworth in New York.

The \$122.5m deal follows proposals for a 2.5m share issue, and comes amid speculation of a possible bid for Viacom because of interest shown by several investment groups. Expanding the size of the business, which has been growing rapidly through acquisition this year, is regarded as a means of increasing its cost to a predator.

EUROPEAN TRADED OPTIONS

Tuesday-Wednesday-Thursday-Friday

Only in the Financial Times



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New issue

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November, 1985

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INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Balanced budget deal gives bonds a fillip

ON FRIDAY, congressional negotiators finally delivered what the bond markets have long been waiting for—a compromise version of the Gramm-Rudman bill which would require a balanced budget by fiscal 1991.

Progress on the compromise package—which still faces a number of crucial hurdles—will be carefully watched in the markets. Although the bill would leave this year's yawning Federal budget deficit virtually untouched, it could set the stage for a shift in market psychology.

"This legislation's importance is its tempering of the market's justified long-term inflation fears," says Philip Braverman of Briggs Schaeffle. News of the agreement gave

U.S. MONEY MARKET RATES (%)				
	Friday	1 week	4 weeks	12-month
Fed Funds (weekly average)	8.44	7.98	8.22	7.77
Three-month Treasury bills	7.25	7.15	7.23	6.87
Three-month prime CDs	7.35	7.20	7.23	6.87
30-day Commercial Paper	7.30	7.20	7.25	6.86
30-day Treasury Bill	7.80	7.75	7.75	7.20

U.S. BOND PRICES AND YIELDS (%)				
	Friday	1 week	4 weeks	12-month
Seven-year Treasury	101 1/2	9.46	9.45	9.78
20-year Treasury	100 1/2	10.00	10.00	10.22
30-year Treasury	100 1/2	10.00	10.00	10.22
New 10-year "A" Financial	N/A	10.40	10.38	10.50
New "AA" Long Industrial	N/A	11.00	10.86	11.32
New "AA" Long Industrial	N/A	11.00	10.86	11.32

Source: FT estimates and Solomon Bros. Money Supply: In the week ended December 5 M1 rose by \$4.4bn to \$916.6bn.

US bond prices a fillip in quiet trading on Friday, but not enough to wipe out earlier price declines. As a result, bond prices closed slightly lower on the week—breaking a two-month rally.

The new Treasury long bond closed at 100 1/2 to yield 9.36 per cent, up from 9.24 per cent a week earlier. Other Treasury bond prices were lower by up to 1 point. But despite last week's hiccup long bond yields are now 40 to 60 basis points lower than before the rally began.

In contrast, short-term Treasury bill and other money market rates moved higher last week. Short-term taxable rates were generally 5 to 15 basis points firmer by Friday's close.

As a result the Treasury yield curve continued to flatten to around 240 basis points from its 1985 peak in October of 351 basis points.

The flattening in short-term rates in part reflected the stubbornly high Fed funds rate which stayed over the 8 per cent level despite repeated generous additions of reserves by the Fed, mainly through

system repurchase agreements. The Federal Reserve continues to accommodate the banking system's apparent need for reserves over and above already substantial seasonal demands," says Dr Henry Kaufman of Salomon Brothers. Dr Kaufman and others suggest the banks' recent heavy demands for excess reserves relate to recent settlement problems at a major bank and adds, "The Federal Reserve's massive accommodation of those needs through an outright purchase of bills indicates its desire to cap these pressures."

But for the most part senior Wall Street economists warn that these actions should not be mistaken for a change in the Fed's stance, and continue to suggest that it is holding to a steady hand in its monetary policy.

Rumours that the Federal Reserve Board was meeting in Washington on Wednesday resulted in feverish speculation about a possible discount rate cut. When nothing happened the market retreated and short rates moved higher.

THE END of overfunding—selling more gilts than needed to fund the public sector borrowing requirement—might have been expected over time to turn the Bank of England's prodigious bill mountain into a mere molehill.

Over the next two months, however, shortages of liquidity in the money market are expected to become very severe, more than reversing the diminution in the bank's bill holdings seen since the summer.

The increase is likely to renew what has been at times an acrimonious debate between the Bank and clearing banks over its methods of injecting liquidity. It could also join a series of factors which seem to be arguing against a near-term cut in base rates from 11 per cent. Others are forecasts of lower oil prices and anxiety that, with bank lending likely to rise, market perceptions of lax monetary policy might be fostered.

The bill mountain consists of commercial bills bought by the Bank from discount houses in order to provide liquidity. It has grown from 1.5 billion in 1981 to 1.5 billion in 1985.

These two factors accounted for a drop of \$2bn or so in the overall bill mountain—bill holdings plus repurchases. Phillips & Drew estimates it at \$15bn, comprising \$13bn of bills and \$2bn of repurchases.

But pressures are re-emerging. Repurchases have been partially unwound. Under funding has been compensated by overfunding. The recent convertible stock absorbing \$400m, may have sold out more quickly than the authorities expected. The Cable and Wireless share issue will attract about \$1bn. A Christmas rise in notes and coins in circulation will drain liquidity from the banking system.

Then comes the biggest squeeze, with corporate and other tax payments due in January and expected to be particularly heavy. The result, according to Phillips & Drew, is likely to be a rise in the overall bill mountain to as much as \$20bn.

The stockbroker says bills maturing in official hands are likely to hamper the Bank's execution of money market intervention policies. "There could also be scope for companies to engage in arbitrage operations, which would tend to undermine monetary control."

"Among such arbitrage is 'round-tripping'—a sale of bills by companies at high prices because of the demand for them, and reinvestment of the proceeds in banks at higher yields, locking in easy and risk-free profit."

The authorities believe opportunities for arbitrage are quickly ironed out, and that round-tripping does not undermine monetary policy.

Though most factors affecting liquidity are seasonal and technical, banks may be reluctant to cut base rates.

Last Monday, sterling's brief rise above \$150 encouraged the market to believe base rates might be cut and therefore they should hold on to bills. The Bank was forced to provide \$320m of "late assistance."

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Alexander Nicoll

system repurchase agreements. The Federal Reserve continues to accommodate the banking system's apparent need for reserves over and above already substantial seasonal demands," says Dr Henry Kaufman of Salomon Brothers. Dr Kaufman and others suggest the banks' recent heavy demands for excess reserves relate to recent settlement problems at a major bank and adds, "The Federal Reserve's massive accommodation of those needs through an outright purchase of bills indicates its desire to cap these pressures."

But for the most part senior Wall Street economists warn that these actions should not be mistaken for a change in the Fed's stance, and continue to suggest that it is holding to a steady hand in its monetary policy.

Rumours that the Federal Reserve Board was meeting in Washington on Wednesday resulted in feverish speculation about a possible discount rate cut. When nothing happened the market retreated and short rates moved higher.

THE END of overfunding—selling more gilts than needed to fund the public sector borrowing requirement—might have been expected over time to turn the Bank of England's prodigious bill mountain into a mere molehill.

Over the next two months, however, shortages of liquidity in the money market are expected to become very severe, more than reversing the diminution in the bank's bill holdings seen since the summer.

The increase is likely to renew what has been at times an acrimonious debate between the Bank and clearing banks over its methods of injecting liquidity. It could also join a series of factors which seem to be arguing against a near-term cut in base rates from 11 per cent. Others are forecasts of lower oil prices and anxiety that, with bank lending likely to rise, market perceptions of lax monetary policy might be fostered.

The bill mountain consists of commercial bills bought by the Bank from discount houses in order to provide liquidity. It has grown from 1.5 billion in 1981 to 1.5 billion in 1985.

These two factors accounted for a drop of \$2bn or so in the overall bill mountain—bill holdings plus repurchases. Phillips & Drew estimates it at \$15bn, comprising \$13bn of bills and \$2bn of repurchases.

But pressures are re-emerging. Repurchases have been partially unwound. Under funding has been compensated by overfunding. The recent convertible stock absorbing \$400m, may have sold out more quickly than the authorities expected. The Cable and Wireless share issue will attract about \$1bn. A Christmas rise in notes and coins in circulation will drain liquidity from the banking system.

Then comes the biggest squeeze, with corporate and other tax payments due in January and expected to be particularly heavy. The result, according to Phillips & Drew, is likely to be a rise in the overall bill mountain to as much as \$20bn.

The stockbroker says bills maturing in official hands are likely to hamper the Bank's execution of money market intervention policies. "There could also be scope for companies to engage in arbitrage operations, which would tend to undermine monetary control."

"Among such arbitrage is 'round-tripping'—a sale of bills by companies at high prices because of the demand for them, and reinvestment of the proceeds in banks at higher yields, locking in easy and risk-free profit."

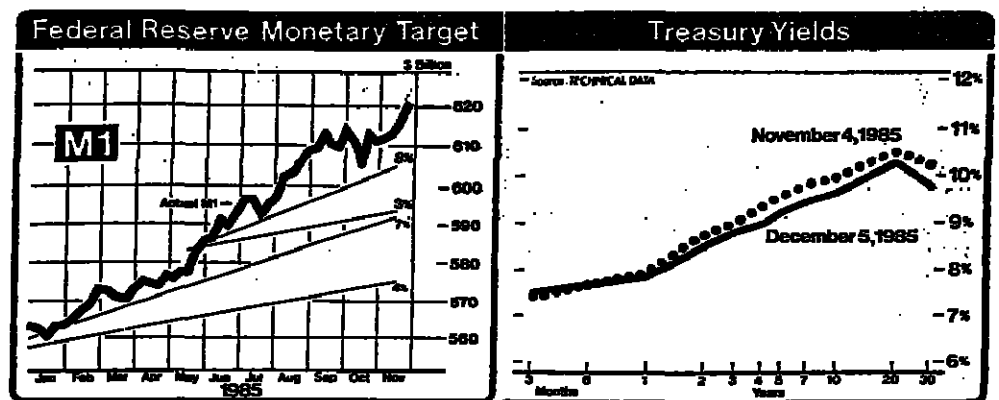
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In fact many Fed watchers now believe that the immediate prospects of a discount rate cut have receded, although most still expect a reduction from the current 7.5 per cent level early next year.

Two main factors explain this shift. First, economists believe that the sharp decline in the dollar's value—and Fed concerns about a precipitous fall—preclude an early Fed easing.

Second, the economic signals remain mixed. Last week economic statistics showed a further decline in unemployment, rising manufacturing employment and higher purchasing managers and help-wanted indices. On the other

hand, November domestic car sales fell sharply. October new house sales declined by 6.5 per cent and factory orders dropped by 1.1 per cent.

The 0.3 per cent gain in the October leading economic indicators—although the sixth rise in a row—was smaller than expected, even though Mr Malcolm Baldrige, the Commerce Secretary, hailed it as "consistent with the recent pickup in overall economic growth."

The bond markets also took heart from the latest comments of Mr Preston Martin, the Fed vice chairman—and from the Fed's move to curb the use of debt securities in corporate

takeovers. Mr Martin indicated again that the Fed would continue to disregard M1 as unreliable—good news, particularly since the narrow money measure appears to have resumed its above-target upward trek with a \$4.4bn jump in the latest statement week.

Mr Martin also told his audience that the Fed would do its part to keep the US economy growing.

This week's crop of economic statistics include retail sales on Thursday followed by November producer price and industrial production figures.

Paul Taylor

UK GILTS

Rise in bill mountain to £20bn forecast

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When the Government borrows more than it needs—as it did for several years in order to restrain growth of £M3 money supply—liquidity is drained from the money markets, and the Bank must offset the shortage.

The soaring bill mountain resulting from overfunding is expected to become very severe, more than reversing the diminution in the bank's bill holdings seen since the summer.

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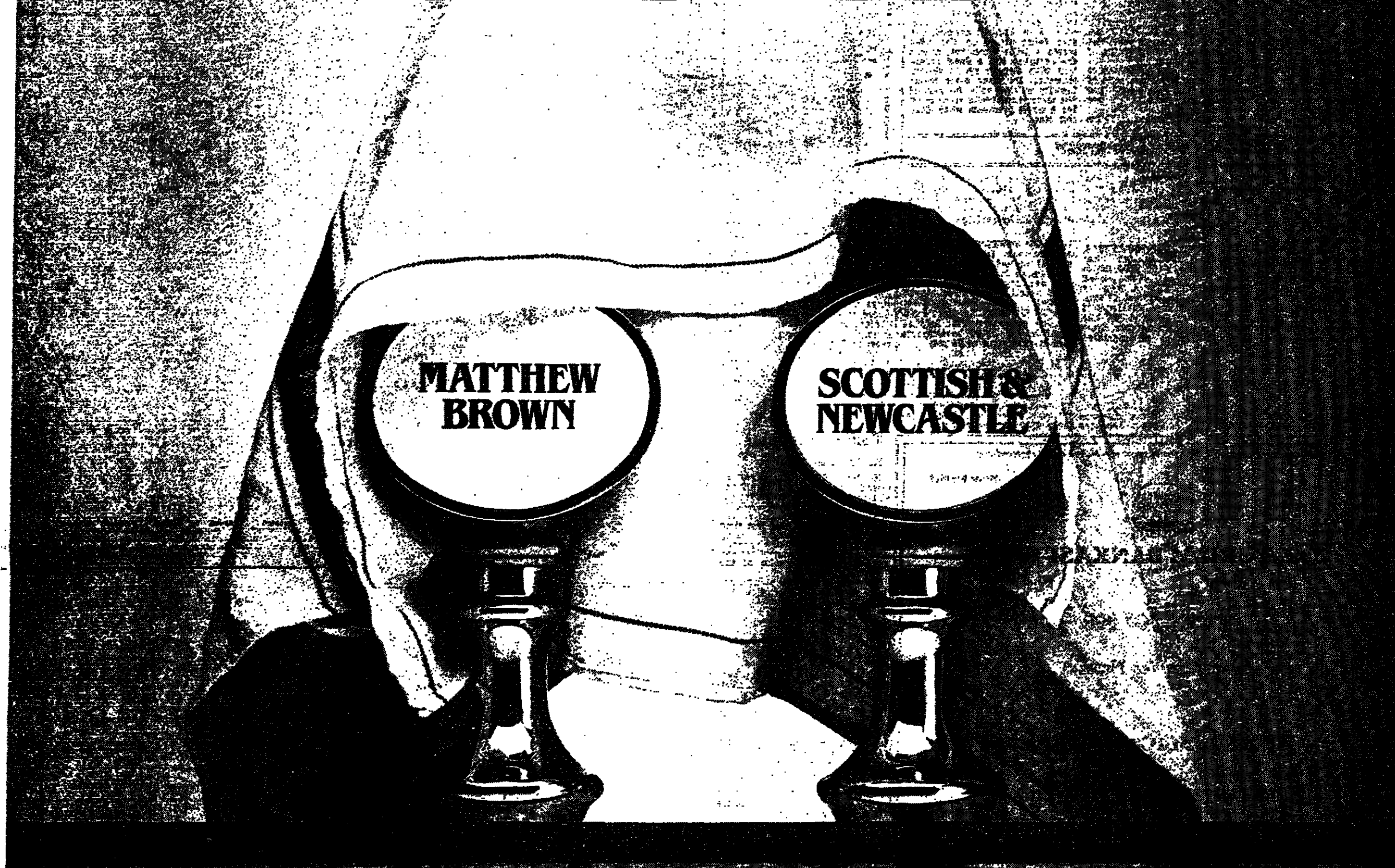
Alexander Nicoll

FT/AIBD INTERNATIONAL BOND SERVICE

STRAIGHTS				Issued	Price	Yield	Chg.
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AIRC 3.5 Fin 11.94	100	100 1/2	10.47	0.00			
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TIME GENTLEMEN PLEASE!



The Final Offer[†] by Scottish & Newcastle for Matthew Brown closes on Wednesday 11th December.

It is currently worth 576p*. If the Matthew Brown share price had followed the FT-Actuaries Brewers and Distillers Price Index since bid speculation started, it would now be standing at around 304p.

You can see what our offer has done to increase the Matthew Brown share price. Now ask yourself what will rejection do to it?

There has been time enough to discuss the benefits of this generous offer. Now, the time has almost run out. Only sufficient acceptances now will realise these benefits:

- S&N offers you**
- 159%*** increase in capital value
 - 87%*** increase in income
 - 63%*** premium over net asset value, even including the recent revaluation
 - 26*** times exit price earnings multiple over the latest published earnings per share

Can you afford to let this go?

Scottish & Newcastle Breweries plc.

**ONLY
2
DAYS
TO GO**



Accept the Scottish & Newcastle offer now!

*Based on S&N's offer of 16 ordinary shares for every 5 Matthew Brown ordinary shares. S&N's ordinary shares closed at 180p on 5th December 1985. (The latest practicable date prior to the appearance of this advertisement.) The increase in income is based on Matthew Brown's final dividend for the most recent financial year and on a forecast interim dividend.

[†]This offer is final. It will not be increased and will close if it has not become or been declared unconditional as to acceptances on or before 11th December 1985. S&N reserves the right, however, to increase the offer or extend the closing date in the unlikely event that a competitive situation arises.

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MINES—Continued

[illegible][illegible]

"Recent Issues" and "Rights" Page 12
(International Edition Page 16)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £500 per annum for each security.

INTERNATIONAL APPOINTMENTS

GE management takes new drive

BY TERRY DODSWORTH IN NEW YORK

THE DRIVE for a more entrepreneurial organisational structure at General Electric, the sixth largest US manufacturing group, has taken a further step forward with the company eliminating an entire layer of senior management. In future, all operating units of the \$28bn group will report more directly to the four executives in the corporate executive office.

The move, slipped through with a minimum of fanfare, bears the unmistakable stamp of Mr John Welch, GE's chairman, whose brief period at the top of the company has been marked by attempts to streamline the product range and

Turmoil at CBS

BY PAUL TAYLOR IN NEW YORK

Mr Jankowski, commenting upon these and other changes within the CBS Broadcast Group, says: "I believe this arrangement applies the experience of our senior management logically and combines functions efficiently. At the same time, it provides for innovation and expansion in new markets. It thus reflects both our confidence in the vitality of our continuing businesses as well as our keen interest in the many new opportunities that are developing both here and abroad, in the new communications environment."

One of the former sector heads, Mr James Baker, who was head of the industrial systems activities, is retiring at the age of 58, while another, Mr Paul van Orden, formerly head of consumer products, will move into the executive office. The two others will remain in the divisional groups with somewhat different responsibilities.

Mr Welch himself will take charge of two businesses, major appliances and medical systems, both of which he has managed in the past. Mr van Orden, as an executive vice president, will continue to direct consumer electronics and

television. Mr Lawrence Bossidy, one of the two vice chairmen, will be responsible for plastics, financial services and construction, and the other, Mr Edward Hood, will run most of the high technology operations — aerospace, semiconductors and aircraft engines.

The new structure, Mr Welch says, has "evolved out of an environmental assessment that defined an intensified competitive world — a slower growth world with more, stronger, worldwide competitors fighting for market share. We continue to believe that one of the necessary ingredients to win in this market environment is greater management agility."

UK APPOINTMENTS

Baxendell to join Inchcape

INCHCAPE has appointed Mr Peter Baxendell as a non-executive director from January 1. He is a director of the Shell Transport and Trading Company, and retired as chairman of the committee of managing directors of the Royal Dutch/Shell Group last June. He is also a director of the Hawker Siddeley Group.

Following the death of managing director Mr K. G. S. Munro in a motor car accident on November 28, the group's holding company K. G. S. MUNRO (ENGINEERS) has made the following appointments: Mr Ronald W. B. Grant, non-executive chairman of the group since 1982, continues as chairman and takes up executive duties full time; Mr James R. Massey

becomes deputy chairman of the group in addition to being chairman and managing director of the group's subsidiary, the Northumbria Electric (Dundee) and a director of Munro Projects; and Mr David A. Inglis becomes a director and general manager of Munro Projects. Mr Norman A. C. Thomson continues as financial director and secretary of the holding company and as a director of all subsidiary companies.

Mr Ian Smith has been appointed commercial director of NORTHAMBER. He joins from Northumbria Electronics where he has been managing director of Northumbria Micro, a subsidiary, since 1982.

Mr Anthony Carlisle has been appointed managing director of DEWE ROGERSON, which he joined in 1970.

NORDIC BANK has appointed Mr André van der Pijl as associate director with responsibility for Eurobond sales and trading from January 1. He was formerly a director of Eurobond in charge of Eurobond

sales and trading Mr Christopher Harding, Mrs Mary Daunter, Mr David Holland-Hurst and Mr William Day will also be joining Nordic Bank from Hoare Govett.

Mr Hew Stevenson has been appointed deputy chief executive of WESTMINSTER PRESS. In addition to his general role he will assume overall responsibility for industrial relations. Mr Richard McClean, deputy chief executive of the Financial Times Group, will join the Westminster Press board.

SIMON ENGINEERING has appointed Mr Remy W. L. Grol as managing director of its Netherlands subsidiary, Simon Heesen, Bortel, which manufactures specialised machinery for the animal feed and related industries. The appointment will take effect on January 1.

Mr Sam Wanchepo has been appointed managing director of ACORN COMPUTER GROUP. He has been acting financial director for the past two months. Prior to that he was a senior manager with Arthur Andersen

& Co. Mr Dennis O'Connor has been appointed director of sales and marketing, joining Acorn from Lotus Development (UK).

THE PENINSULAR & ORIENTAL STEAM NAVIGATION CO has appointed Mr T. C. Harris to the board from January 1. He will retain his present position as chairman of the company and managing director of the Earls Court & Olympia Group and chairman of Sutcliffe Catering Group and Sterling Guards.

BRITISH UNDERWATER ENGINEERING has appointed Mr Bernard J. Adkins to its board as financial director.

THE CHARTERHOUSE GROUP has appointed Mr George Heron as a director of Charterhouse Investment Management.

SILVERMINES, Dublin, has appointed Mr John Gunn as a director of the British and Commonwealth Shipping Company, and previously was chief executive of Exco International.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

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NOTES

WORLD STOCK MARKETS

Indices

NEW YORK

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'd
High	Low	High	Low	High	Low	High
414.22	414.22	414.22	414.22	414.22	414.22	414.22
Home Bnds	81.49	81.47	81.76	81.65	81.76	72.72
Transport	69.59	70.35	70.62	69.78	69.78	70.62
Utilities	165.57	165.68	165.62	165.62	165.62	165.62
Trading Vol	126,018,018,015,019,109,100,103,100					

Day's High 1488.5 (1504.1) Low 1484.78 (1477.88)
Industrial dividend yield % Nov. 22 Nov. 22 Nov. 15 year ago approx
4.29 4.32 4.40 4.92

STANDARD AND POORS

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
225.85	226.75	227.24	227.50	227.50	227.50	227.24
Composite	202.99	203.88	204.35	200.85	200.85	200.85
Industrial dividend yield % Nov. 22 Nov. 22 Nov. 15 year ago approx	5.57	5.62	5.66	4.07		
Industrial P/E ratio	15.54	15.58	15.10	10.69		
Long Gov. Bond yield	9.83	10.02	10.15	11.71		

N.Y.S.E. ALL COMMON

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4
165.9	165.4	165.4	165.4	165.4	165.4	165.4

TORONTO

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

MONTREAL

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

NEW YORK ACTIVE STOCKS

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

AUSTRIA

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

BELGIUM/LUXEMBOURG

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

DENMARK

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

FRANCE

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

GERMANY

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

NORWAY

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

AUSTRALIA

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

SINGAPORE

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

SOUTH AFRICA

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

HONG KONG

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

ITALY

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

JAPAN

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

NETHERLANDS

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

SPAIN

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

SWEDEN

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

SWITZERLAND

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

CANADA

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

TORONTO

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

MONTREAL

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

NEW YORK ACTIVE STOCKS

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

AUSTRIA

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

BELGIUM/LUXEMBOURG

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

DENMARK

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

FRANCE

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

GERMANY

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

CANADA

TORONTO

Closing prices December 6

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

MONTREAL

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

NEW YORK ACTIVE STOCKS

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

AUSTRIA

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

BELGIUM/LUXEMBOURG

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

DENMARK

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

FRANCE

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

GERMANY

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

NORWAY

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

AUSTRALIA

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

SINGAPORE

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

SOUTH AFRICA

Dec. 5	Dec. 4	Dec. 3	Dec. 2	Dec. 1	1985	Since Comp'n
High	Low	High	Low	High	Low	High
165.9	165.4	165.4	165.4	165.4	165.4	165.4

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued on Page 2

AMEX COMPOSITE CLOSING PRICES

Continued on Page 23

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

A period of consolidation

BY COLIN MILLHAM

It was not a very eventful week on the foreign exchanges. The dollar finished slightly stronger and sterling was a little weaker, but there was no marked trend, and the market gave the appearance of settling into a holding pattern in the run up to the end of the year.

Dealers were looking at levels of DM 2.50, ¥200 and \$150 for sterling as important psychological levels for the dollar, and it was suggested in Frankfurt that the German Bundesbank bought dollars on Monday when the dollar fell to a 24-year low of DM 2.493. A level of DM 2.54 was also regarded as a point where the Bundesbank would intervene to prevent the dollar from rising, and against this background the US currency held within a narrow range for the most part.

Few important US economic statistics were released last week and there was no real impetus for the market to test the resolve of the central banks in either direction, but it was generally felt the monetary authorities were happy to see a period of consolidation for the dollar.

Unemployment figures on Friday were perhaps the most important of the week, but were

£ IN NEW YORK

	Dec. 6	Prev. close
1 month	1.4920-1.4910	1.4910
3 months	1.4910-1.4900	1.4900
6 months	1.4900-1.4890	1.4890
12 months	1.4880-1.4870	1.4870

Forward premiums and discounts apply to the U.S. dollar.

news of a surprising 5.5 per cent fall in new home sales.

Wednesday's publication of a 1.1 per cent fall in October US factory orders was in line with expectations, but was another indication of the recent slowdown in economic performance.

Fourth quarter Gross National Product growth is expected to be less than 2 per cent at the flash estimate on December 23, and although the Reagan Administration has forecast growth of 4 per cent for 1986, the market is rather sceptical about this figure.

Events last week tended to confirm that the market is not quite so dedicated to watching every US statistic, while the comment by Dr Clayton Yeutter, US special trade representative, on the benefits of another 10 per cent fall in the value of the dollar had no effect on the market.

Sterling touched \$1.50 on Monday, for the first time in over two years, but could not sustain this level in nervous trading. US ministers from the Organisation of Petroleum Exporting Countries prepared to meet in Geneva at the weekend. The pound again looked vulnerable to the fluctuations in the oil market.

The following day an increase of 0.5 per cent in US leading economic indicators was much as forecast for October, but the upward revision to 0.4 per cent from 0.1 per cent for September helped to underpin the dollar, although this was partly offset by

FINANCIAL FUTURES

FOUNDER'S (FOREIGN EXCHANGE)

Spot	1-mth	3-mth	6-mth	12-mth
1.4775	1.4775	1.4775	1.4775	1.4775
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LIFFE-EURODOLLAR OPTIONS

Strike price Dec 1985

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NOTICE OF RATE OF INTEREST



Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)
Kuwaiti Dinars 7,000,000

Floating Rate Notes due December 1988

In accordance with the provisions of the Fiscal Paying Agency and Reference Agency Agreement between Kuwait Foreign Trading Contracting and Investment Co. (S.A.K.) and The National Bank of Kuwait S.A.K., dated as of 7th December, 1983, notice is hereby given that the rate of interest on the above Notes has been fixed at 7 1/8 per cent and that the Coupon amount payable on 8th June, 1986, against Coupon No. 5 will be K.D. 188.545. By: The National Bank of Kuwait S.A.K., Head Office: P.O. Box 95, Safat, Kuwait. Fiscal Agent 5th December, 1985.



بنك الكويت الوطني
The National Bank of Kuwait S.A.K.

Lloyds Bank Plc

(Incorporated in England with limited liability)

U.S. \$750,000,000

Primary Capital Undated Floating Rate Notes



In accordance with the terms and conditions of the Notes and the provisions of the Agency Bank Agreement between Lloyds Bank Plc and The Chase Manhattan Bank, N.A., dated 5th June, 1985, notice is hereby given that the rate of interest for the interest period beginning on 9th December, 1985 has been fixed at 8 1/8 per cent. The relevant interest payment date is 9th June, 1986 (making an interest period of 182 days), and payment of US\$439.72 will be made against Coupon No. 2.

9th December, 1985
By: The Chase Manhattan Bank, N.A., London, Agent Bank

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MICHAEL ANDREW

and

PETER AMANDINI

have joined Shearson Lehman Brothers

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Telex: 25822.

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INCORPORATED IN THE UNITED STATES OF AMERICA

CURRENCY MOVEMENTS

Dec. 6 Bank of England Index

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100 = 100

FINANCIAL TIMES SURVEY

CHINA

AT THE CROSSROADS

Deng, China's top leader, faces new problems in liberalising the economy. Standards of living are much improved, but fresh difficulties threaten further growth.

CHINA'S "open door" to foreign trade opened wide this year. In few, among other things, thousands of limousines, minibuses, colour televisions, and, if Peking's media are to be believed, blue videos. Inside China, these new delights provoked massive corruption, black marketeering and an alarming outburst of foreign exchange. At the same time, the urban economic reforms of October 1984 generated chaotic industrial growth and inflation.

While all of Peking's leaders outwardly profess support for the "open door," some would like to slam it almost shut, leaving only a crack ajar to let in carefully chosen foreign technology. But China's top leader, Deng Xiaoping, is battling hard to proceed with the open trade policy and the liberalising of the urban economy. He and his supporters believe this is the only way to modernise China.

Besides his economic difficulties, Deng has a new threat with which to contend. This is student unrest. Apparently triggered by poor living conditions, it soon grew into hostility to Japan when Premier Yasuhiro Nakasone in August paid honour to his country's war dead. This evoked bitter memories of Japan's occupation of China in the 1930s and 1940s.

Curiously, the anti-Japanese feeling seems to have been in part brought out by the influx of the very goods—Hitachi colour TVs, Toyota Crows—which were so desirable. The economic success of other countries was seen as an insulting defeat for China, as was the Hong Kong victory in a football match in the Spring which unleashed a minor riot. Peking has now taken down the billboards along its main thoroughfare which for several years have advertised Japanese products.

By Colina MacDougall

The party leadership, headed by 81-year-old Deng on the reformer's side and, for the conservative Marxists, the almost as elderly head of state Li Xiannian and one-time economic planner Chen Yun, is unlikely to be divided over the need to curb tendencies to overtake xenophobia. Nor will it differ on the requirement to cut down corruption and black marketeering, or even to take the heat out of the economy. But leaders may well have different views about how soon—if at all—the liberalising of the economy should resume after the go-slow currently being imposed.

The party's special delegates' meeting last September was originally convened to force retirement on elderly officials and to appoint younger, better-qualified men and women in

their place. While it partly fulfilled that task it unexpectedly provided a forum for a fierce debate on the reform policy in which Deng was on the defensive.

Chen Yun and Li Xiannian criticised the economic muddle and the moral evils which the economic reform and the "open door" trade policy had introduced, while Deng spoke sharply about earlier leftist errors and the huge difficulties of carrying out a new kind of economic policy.

Numerous younger officials were promoted to top jobs, which many observers believed meant that the reformist group was firmly in command. But the reform policies have been severely retrenched, and imports, which had soared wildly above their 1984 level, are now subject to long delays. This may be temporary, or it may herald a long dispute over how much of the reform is wise.

Since the meeting, the debate has continued. In the press, articles defending the reform have pointed out, as the reformist leaders had already warned, that mistakes are inevitable in such a huge change. But the conservative Marxists are hitting back.

They may not object in principle to a more liberalised economy than China had in the 1960s and 1970s, yet they certainly mind the currency black market, speculation and even freedom of movement to which it gives rise.

Besides the prison sentences handed out in November to officials convicted of economic crimes, there is a growing move

to clamp down on the hundreds of thousands of small traders responsible to nobody but themselves who have become such a feature of the urban scene in the last few years.

"Some private businesses are making far too much money," officials in Wuxi told the Financial Times. "We shall have to take it away from them". And there is a new trend towards cutting out anything resembling freer culture—in Peking a new play, "WM" (from the Chinese "women" meaning "us"), which dealt in an impressionistic way with the problems of daily life, was closed almost as soon as it opened.

Chen and Li might well ask after the year's events how ready is China's economy for a liberalising reform. It demands some understanding of what the reformers are trying to do, and at least a modicum of managerial skills. Chinese economists

stress that the reform means moving to the use of financial levers to control the new market economy, but so far neither the administrators nor the managers seem to have grasped how to work with them.

New powers

This year, when Chinese enterprises went over from a system of government grants to borrowing from the banks, loans were so easy to obtain that some factories used them to raise wages and bonuses. Even if the banks made more effort to find out what loans were for, they do not have staff who can assess any better than most Chinese managers whether new projects are feasible.

There has been little common sense shown this year by provincial authorities in using their new powers. The classic case of impoverished Hainan

island, which was given a special allowance of foreign exchange and then bought tens of thousands of cars which it resold at colossal profits to less favoured areas, was unique, but numerous provinces and cities bought colour TV production lines without a thought for the competition they would then face from one another.

The much-vaunted appointment in China of younger and better-qualified men may not bring the benefits the reformers expect. Many were trained in the Soviet Union, not usually a source of high-grade managers.

"I spent seven years taking my doctorate in banking in Moscow," said Liu Hongru, Dep Governor of China's central bank, the People's Bank, and the man in charge of its day-to-day working. What will he have learned about the role of banks in indirect control of the economy there? Many others,

also trained in Moscow, such as Vice-Premier Li Peng (tipped to succeed Zhao Ziyang as Premier), are engineers, not a notably entrepreneurial class. Yet it is hard to imagine the "open door" and the reform policy going into total reverse. It has brought too many benefits. Foreign trade and investment have boosted key industries such as oil, coal, telecommunications, machinery, electronics, textiles and hotels. Contracts for various kinds of foreign investment now total nearly \$15bn.

Under the rural reforms, the peasants are far better off than they were eight years ago, and both they and the city dwellers need the free markets and the middlemen who serve them. The urban reform is required to bring the same growing pros-

CONTINUED ON PAGE 3

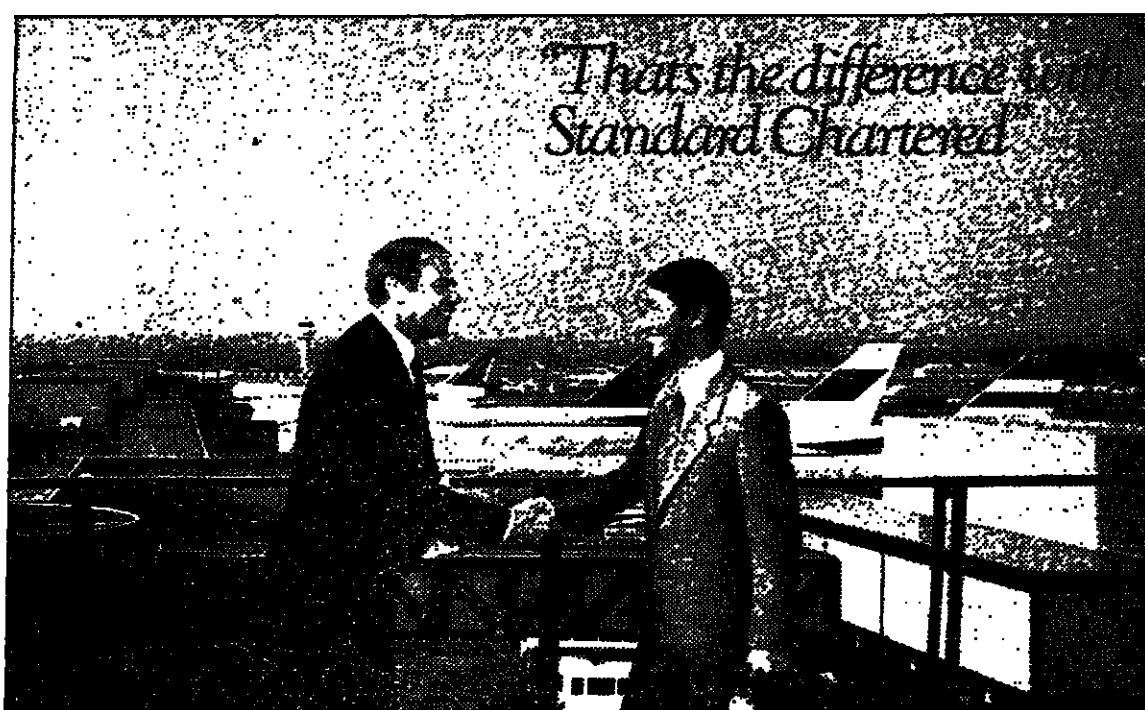
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At 81, Deng Xiaoping is pushing ahead with bold reforms that will shape the lives of a billion people.

LONGER IN CHINA. STRONGER ON SERVICE.



The markets of China have never been more important than they are today. And when you're considering their opportunities, consider this as well.

Standard Chartered Bank has been continuously active there, for 125 years (longer than any other international bank). This gives us something of an advantage, when it comes to identifying business opportunities, foreseeing complications—and providing highly practical solutions.

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Year clouded by discontent

Political trends

ROBERT THOMPSON

IN A year the present pragmatic Chinese leadership should have been able to score a clear political victory, enduring economic problems and unexpected public displays of discontent have blurred the result.

Student unrest has been of particular concern to a government that has elevated the status of education and the educated, only to find itself having to deal with a series of student disturbances, disturbances that, according to the sometimes well-informed Hong Kong magazine, Cheng Ming, provide the Communist Party with its "gravest challenge since the downfall of the Gang of Four."

Diplomats are agreed that in the last couple of months there has been a "general tightening" of government policy and a stressing of the importance of ideological purity. They have also noticed that the words "class struggle," an old Maoist favourite, have resurfaced.

All this in the same year the paramount leader, Deng Xiaoping, and his fellow pragmatists secured the mass resignations of 64 elderly officials during a special party conference in September to make way for younger and better educated leaders, most of them apparently Dengists.

And in the year six new Politburo members were hand-picked by Deng and his fellow travellers. And when the speeding economy, itself a serious political problem, slowed slightly, after overcoming what the People's Bank of China president, Chen Muhua, recently revealed was "a very grave financial situation" early in the year.



Student unrest has caused anxiety this year. Above, ranks of secondary school scholars in Peking line up for exercises

Despite having a strong hold on the party, Deng clearly does not have everything his own way. The opposition is strongest from those within the leadership who consider the bold economic reforms have gone too far too quickly and that the country is in the midst of an ideological malaise.

Among those is the senior conservative Politburo member, Chen Yun, 80, who himself did not heed the call for the elderly to resign and whose presence is regarded by diplomats as a significant stay for Deng Xiaoping to stay at the helm to steer a course for the reforms.

Chen took advantage of the Special Party Conference to make known his displeasure with various aspects of the reforms and to highlight what he considers to be a growing ideological poverty in this time of supposed growing material wealth.

While Deng has encouraged

reliance on market forces to control production and has overseen the relaxation of central controls enterprises, Chen called for tightened central control, and observed that "market regulation involves no planning, and blindly allowing supply and demand to determine production."

Chen also criticised the claimed existence of many "10,000 yuan households," which are cited by reformists as an example of how their economic policies have brought prosperity to Chinese peasants.

Another who has shown that his enthusiasm for the reforms is not unbounded is the Chinese President, Li Xianmin, who in the latter part of the year made public his own doubts about the lack of ideological direction.

Despite their statements, there is little doubt that Mr Deng has the numbers in the

party, and in tightening of policy in areas such as the arts and the over-emphasis of ideological purity would not have happened without his imprimatur.

Diplomats have two differing theories to explain the tightening. The first is that the pragmatists have been tacking, as they often have in the past, in a bid to head off any sustained attacks on their policies by the conservatives or "reservationists" — those who have reservations about present policy.

The other is that the reservationists are much stronger than has been generally believed, and the flexing of their muscles has led to the bridling of the pragmatists and tighter central control, which, one western diplomat said, is "across the board."

Certainly the pragmatists are acutely conscious of ammunition that can be used against their policies, hence an extraordinary series of meetings

between government leaders and students in a bid to take the heat out of campus unrest. The student protests in several cities followed the August visit of the Japanese Prime Minister, Yasuhiro Nakasone, to the Yasukuni war shrine, which honours the Japanese war dead, and had a strong anti-Japanese flavour.

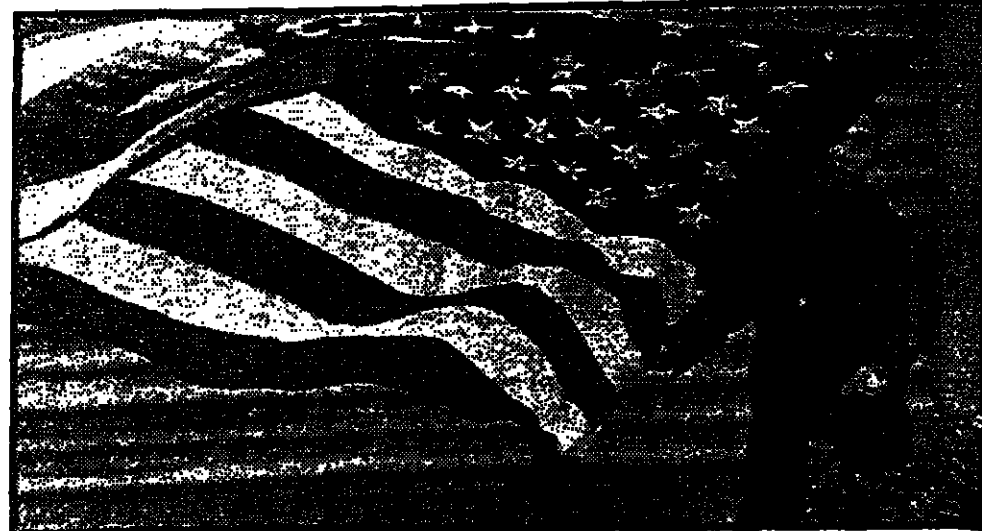
But the protest also provided a rallying point for all manner of dissent, some of which was shown in posters displayed at Peking University. There were posters with anti-Japanese messages, but there were also posters calling for a true democracy and posters condemning the reform policy.

For the Chinese Government, the student disturbances have been at least an unacceptable distraction and have provided the reservationists with unforeseen rounds of political ammunition. That the government has taken the disruption very seriously is shown in newspapers repeatedly linking the unrest to the campus chaos and momentum of the Cultural Revolution.

The Government is also vulnerable on the issue of corruption, which Chen Yun has highlighted as a source of shame to the nation. In through the "open door" has come bribery, rampant currency crime, speculation and tax evasion, with many party and government officials among the offenders.

In late November, during one sitting of the Peking Intermediate Court, 23 government officials were sentenced to jail terms ranging from one to 15 years. Again the Chinese leadership had been forced to take tough action to safeguard its policies from sustained attack.

The leadership has been successful in disarming potential dissenters among the senior ranks, and the liberal economic reforms are still in place, but the political risk rises with every new problem.



A Chinese official struggles with an American flag as it blows in high winds before the welcoming ceremonies for President Reagan to the Great Hall of People in Peking. Relations with the US are not devoid of friction.

Contacts improve with Soviet Union

CHINA'S FOREIGN POLICY, according to Zhou Nan, the deputy Foreign Minister, has a simple premise: to define the objectives. These now are, he goes on, to seek "long-term peace." All bilateral relations then follow naturally.

Disingenuous though it seems on paper, Zhou's logic is consistent with much of Chinese history. As recently as the last century, the basic premise was that all foreigners were "barbarians" and that the objective was to extract tribute from them.

One hundred years later, the perceived threat was from the Soviet Union and the goal was to combat Soviet "hegemonism," in which the normalisation of relations with the US and Japan was an integral element.

Today, the Soviet Union appears less menacing to China. Although Zhou argues that the superpower rivalry remains in some cases acute, the factors militating against war on a global scale may have the edge on those favouring it. But since China's interest in peace is fundamental, it must work through a more omnidirectional non-aligned foreign policy further to minimise the risks of conflict.

This includes "normal" relations with the superpowers, though never to the point, Zhou goes on, of entering into "an alliance or strategic relationship with either." Indeed, at a state-to-state level, contacts with the Soviet Union have improved markedly over the past 12 months in particular.

They are not, however, anything like "normal." Recent increases in trade and official and cultural exchanges have done nothing to solve China's three outstanding complaints against the Soviet Union—over its backing of the Vietnamese invasion of Kampuchea (Cambodia); its occupation of Afghanistan; and over the continued presence of Soviet troops on China's Mongolian borders, and at Cam Ranh Bay in Vietnam. All three, the deputy Foreign Minister maintains vehemently, threaten China's security.

Relations with the other superpower, the US, are also not devoid of friction, though they tend to be less intransigent than those with the Soviet Union. From the Chinese perspective, which has some justification, the problems are much more of Washington's making than Peking's.

Thus China still takes offence "what it considers US 'interference and obstruction' over the future of Taiwan. It points out endlessly that though the US endorsed the settlement with Britain over the future of Hong Kong, it objects when China seeks to apply the same 'one country, two systems' principle to Taiwan.

Beneath the surface lie some ponderables: the extent to which contacts with North Korea remain solid. China has never publicly deviated from support for President Kim Il-sung's proposal for a Korean Confederation, to be preceded, presumably, by a tripartite dialogue between the two Koreas and the US.

Nor has it budged from Pyongyang's position that the negotiations be limited to the three parties. It claims it is no longer a direct party to the Korean issue because its troops were withdrawn years ago. If it were included, both the Soviet Union and Japan would have to be added as well, rendering the process more complex.

The US has it budged from

the US right wing has also raised Chinese hackles in other ways—in trying to cut off US contributions to international population control programmes in China because China allegedly practices forced abortions and, most recently, in Senator Jesse Helms's blocking of Senate approval for the new US Ambassador to Peking, Mr Winston Lord, largely because Mr Lord has been a close associate of Mr Helms's bete noir, Dr Henry Kissinger.

But the Chinese government has displayed a remarkable ability to ride with the provocative punches from the American Right wing, even though these have packed more power since the conservative President Reagan took office in 1981.

Vice Minister Zhou is philosophical about this; he recalls a recent exchange with a heavyweight American visiting delegation brought to China by Time Magazine. He delights in recounting how Time's managing editor was obliged to admit in the end that "consistency is not characteristic of US foreign policy."

Whatever China's belief in its own consistency, it also has

which China can and does influence the regime in North Korea and whether or not Pyongyang listens more to China or to the Soviet Union (which itself, under Mr Mikhail Gorbachev, may be entertaining policy changes).

The only reality is that after 30 and more years of Japanese, there is at least a form of dialogue between North and South and some informal contacts (and a lot more indirect trade) between China and the South.

The Gorbachev factor may also, in time, influence another Chinese preoccupation. China has intermittently warned throughout the 1980s that it is prepared to teach Vietnam a "second lesson" (though the first, the 1979 Chinese invasion in 1979, may have been more instructive for what it revealed about the shortcomings of the Chinese Army).

But the threat grows less potent as China's relations with both superpowers evolve, no matter how slowly. Were the new Soviet leader to exert a moderating influence on Vietnam, it might disappear entirely.

On Hong Kong's broader system of elections, introduced this year, Zhou commented that "we should be very prudent in trying to preserve stability in Hong Kong," but he made no criticism of developments thus far.

In this he differed from China's chief representative in Hong Kong, Xu Jiatun, who in November attacked the British for their moves in this direction. However, the next meeting of the Sino-British Joint Liaison Group on Hong Kong passed off without further criticism, so Zhou's caution appears to be representative of the main Peking line.

Elsewhere in Asia, and indeed further afield, the thrust of the new direction of Chinese foreign policy—the pursuit of peace and stability—is more clearcut. This year alone some old hatchets have at least been sheathed, if not completely buried, with Indonesia and Malaysia.

Relations with another large neighbour, India, have experienced 'touchy moments,' most notably when the Indian Army general staff accused China of providing test facilities for Pakistan's nuclear devices. Mr Zhou denounced this as "sheer fabrication."

He maintained that though China may not be a signatory to the nuclear non-proliferation treaty (a fact which complicated ratification by the US of its nuclear treaty with China), it has pledged not to further the spread of nuclear weapons. There was evidence that Mr Rajiv Gandhi, Indian Prime Minister, believed in China's good intentions, he added.

Foreign policy

JUREK MARTIN

to be said that its own foreign policy, too, is not above taking some surprising twists and turns. The unanticipated recent deterioration of relations with Japan is outlined at length below.

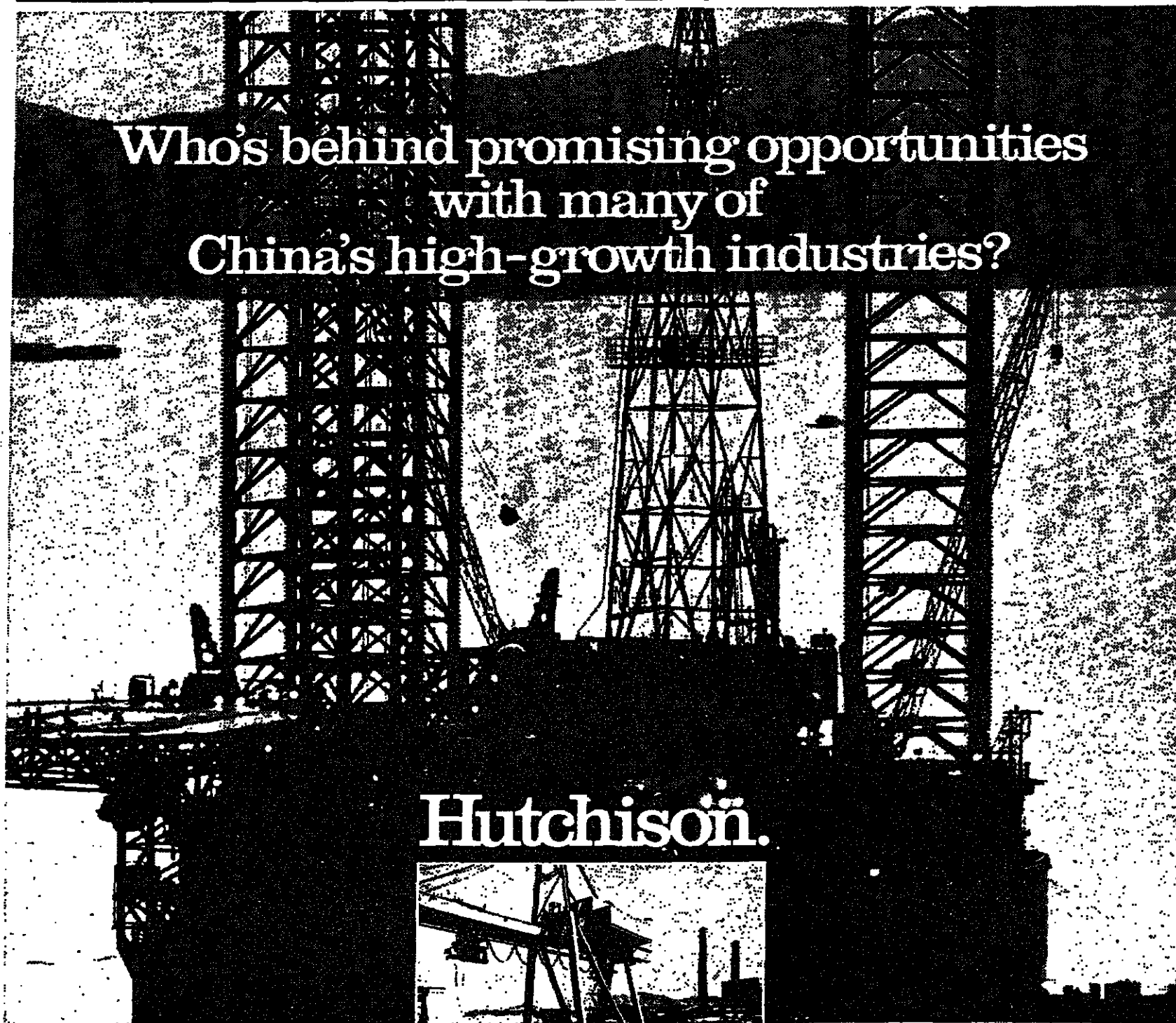
Equally unpredictable is the extent to which contacts with South Korea have developed, albeit unofficially, since the two countries were brought together by the improbable circumstance of the hijacking of a Chinese airliner to Seoul two years ago.

Officially, the relationship with North Korea remains solid. China has never publicly deviated from support for President Kim Il-sung's proposal for a Korean Confederation, to be preceded, presumably, by a tripartite dialogue between the two Koreas and the US.

Nor has it budged from Pyongyang's position that the negotiations be limited to the three parties. It claims it is no longer a direct party to the Korean issue because its troops were withdrawn years ago. If it were included, both the Soviet Union and Japan would have to be added as well, rendering the process more complex.

The US has it budged from

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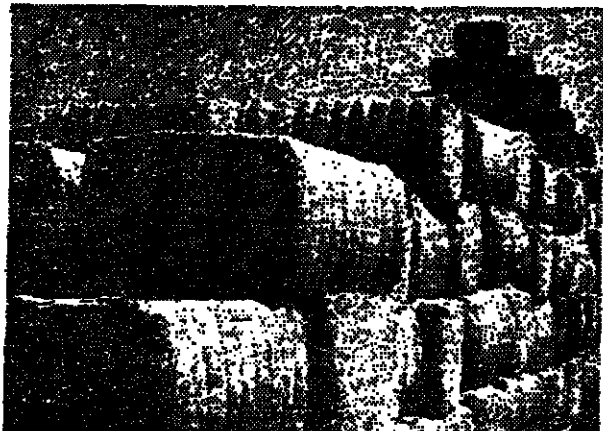
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China 3

High costs force sweeping changes in the structure of the People's Liberation Army, but resistance from 'old soldiers' poses a serious problem,

Radical reforms under way

Military policies

ELLIS JOFFE

THE TRANSFORMATION of the People's Liberation Army (PLA) into a modern professional force, which has been under way since the turn of the decade, was given unprecedented impetus this year by the introduction of sweeping reforms in its size and structure. Designed to make the PLA more efficient, less costly and better led, the reforms heralded a major shake-up of the entire defence establishment. Although still in early stages, these reforms have, together with previous changes, already altered the PLA of Maoist days beyond recognition.

Spearheading the most recent reforms was the decision of the Chinese leadership to cut troop strength by a million men, or about 25 per cent, in the course of 1985 and 1986.

For years the Chinese had stressed the need to reduce the size of the armed forces, but the magnitude of the projected reduction was stunning by any standard and particularly in an army whose doctrine and strategy had been founded on the premise that superiority in manpower could offset inferiority in firepower.

The main reason for such a momentous move was financial. The PLA's weapons are largely obsolete, but cash shortages and awesome costs preclude substantial rearmament. The leadership, therefore, has settled on a policy of slow and selective re-equipment as well as refinement of existing weapons. Consequently, military expenditure fell for two years after the Vietnam war of 1979 and remained steady until 1984 at 17 to 18bn yuan.

The professional military have accepted this state of affairs but have periodically pressed for more money. However, an increase in defence spending commensurate with needs is not forthcoming.

In 1985 the military budget rose slightly to about Yuan 18.6bn, but fell sharply as a proportion of the national budget—the military the lowest share of national spending in the post-Mao period, and prob-



A Chinese soldier takes time to photograph one of his fellow soldiers as he poses by light artillery pieces in Peking

ably the lowest share ever.

Funds for weapons, therefore, have to be found mainly by saving elsewhere. Since operating costs absorb about 35 per cent of the military budget, a trade-off has to be made between men and materiel.

Such a trade-off is facilitated by changes in Chinese threat perceptions and military doctrine. In recent years the Chinese have considered the danger of a Soviet attack to have greatly receded. In particular, they have displayed a growing confidence in the ability of their small nuclear force to deter a Soviet nuclear strike.

Thus, in the unlikely event that war breaks out, the most probable threat to China would be a limited ground invasion by conventional forces.

An attack of this sort, according to China's new strategic doctrine, will be met not by a Maoist strategy of "people's war" in China's heartland but by a conventional defence close to the border and based on positional warfare and swift counter-attacks. Such a defence requires a smaller army—but an army equipped with modern weapons and capable of fighting a modern war.

Reducing troop strength is viewed by the Chinese as an important step toward building such an army. It will accelerate the transformation of the infantry into a composite force,

make command and control more suitable to modern warfare, and will strengthen the reserve system. It also enables the Deng leadership to weed out large numbers of old and incompetent officers who block the promotion of professionally fit commanders and provides an opportunity to dismiss conservative veterans who have ideological qualms about Deng's policies.

Opposition

Not surprisingly, the cutback has run into some resistance from officers who continue to view a large standing army as China's prime military asset.

The most formidable opposition seems to have come, however, from officers slated for retirement and fearful of losing the power and prerequisites that derive from active command. The Deng leadership, deterred from its effort to renege, has not been shape the PLA.

The latest results of this effort became apparent during the year. One was the accelerated retirement of veteran officers. This is a prerequisite to streamlining the PLA and infusing it with new blood. However, getting the old soldiers to fade away has been a major problem. Since there is no formal rule for retirement, the leadership chose to

coax rather than coerce ageing officers to retire by generously cushioning their departure. How many have actually departed is not known, but the number scheduled for retirement this year and next seems to run well over 100,000.

Far-reaching organisational and personnel changes were also carried out. The number of Military Regions was reduced from 11 to seven by merging the Wuhan Military Region with Jinan, Lanzhou with Urumqi, Chengdu with Kunming, and Fuzhou with Nanjing.

Four of the seven commanders were new appointees and numerous new faces appeared in the commanding organs of the Regions. One prominent casualty was Li Desheng, who had served for 12 years as commander of the strategic Shenyang Military Region and had been a powerful military figure.

Leadership bodies under the PLA General Staff—the General Staff Department, the General Political Department, and the General Logistics Department—as well as various services and arms were extensively reshuffled and trimmed.

The average age of officers in top-level command organs was reportedly lowered from 65 to 57. Exemplifying the new breed of officers with strong professional backgrounds were

three commanders in their forties and early fifties—He Qizhong, Zhou Wenyuan, and Zhong Shunli—who were appointed deputy chiefs of the three departments under the General Staff.

The air force, which has had difficulties with developing a modern fighter-interceptor, was a special focus of reform. A new commander, Wang Hai, was appointed instead of Zhang Tingfa. The first commander with a combat background, Wang was assigned the task of reducing manpower by 120,000 men—some 40 per cent.

The chief purpose of such a massive cut is to save funds for the development of modern technology and to improve training. The Chinese also continued to purchase small quantities of much-needed high technology items for the air force and other services.

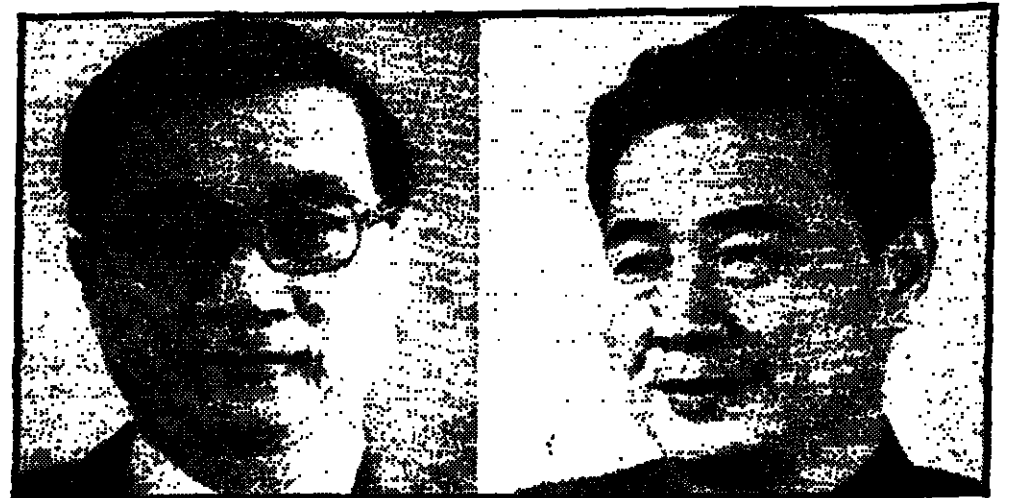
The enhancement of the PLA's professionalism has been paralleled by a decline of its political influence. This decline was most visible in the smaller number of military men in top policymaking bodies. Three veteran military leaders—Ye Jinying, Nie Rongzhen, and Xu Xiangqian (who died later)—were dropped from the new Politburo, bringing military representation down from nine out of 26 members in the previous Politburo to three out of 20 in the present one.

Ye, in particular, had harboured doubts about Deng's national policies and had become a rallying figure for officers unhappy with the radical economic and social reforms. His retirement has removed their most powerful and prestigious spokesman and has substantially weakened the position of dissenters in the armed forces.

The PLA's ability to influence national affairs has been further weakened by a reduction of its representation in the new Central Committee—from 19 per cent in 1982 to about 13 per cent. This reduction is acceptable to professional officers who want to get on with their military job. These officers support Deng's reforms.

In spring, soldiers of the PLA were issued new uniforms—smarter, better fitting, and of higher quality—a symbolic pointer to the new look of the Chinese armed forces.

NEW POLITBURO MEMBERS



China's ruling Communist Party elected six new full members to its Politburo and five to its Secretariat this year. The new Politburo members include Hu Qili (top left), tipped by diplomats to become the next party chief, and Li Peng (top right), who is likely to be China's next Premier. Also appointed: Tian Jiyun (lower left) and Wang Zhaoguo (lower right)

China at the crossroads

CONTINUED FROM PAGE 1

perity to the towns. With the far more complex industrial economy, this will be more difficult, and much rests on Peking's eventual ability to bring its mainly 1950s prices into line with reality and world markets so that a market economy would be more soundly based. This potentially disruptive step is likely now to be

approached with extreme caution.

It will be difficult for some months at least to talk in China about economic reform and its corollary, making profits, without risking accusations of undermining the campaign for "socialist spiritual civilisation" which took off in the wake of conservative criticism at the September party meeting. It will also be difficult for Chinese officials to import anything but the most necessary technology

to avoid charges of wasting foreign exchange.

But if Deng and his men are to resist pressure to return to central planning, they will have to persuade Chen Yun and his allies that they can carry on without causing economic chaos or widespread crime. At the very least, that means educating officials in how to behave under a looser rein.

If the past year is any guide, that will not be an easy task.

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China 4

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(Oh, by the way, the headline reads: "Greetings.")

Deng keeps his fingers crossed

DENG XIAOPING'S economic reforms have struck difficulties this year. While production, especially in industry, has continued to boom, the attendant evils of inflation, shortages, fraud and even corruption have flourished in the acquisitive atmosphere generated by Deng's "get rich" slogan.

Since the Spring, China has increasingly tried to enforce belt-tightening measures in which construction funds, foreign exchange and official perks such as lavish dinners would be more closely controlled. But it remains to be seen whether Peking's move to use indirect levers such as taxation and interest rates to control the economy instead of traditional central planning will get successfully off the ground.

It is clear that Deng and his reformers have no intention at present of backing down in principle from their policies, despite the difficulties and criticisms they have called forth from more conservative Chinese leaders.

The message inherent in the floods of explanatory articles in the Press since this year's September special party conference at which the criticisms were first openly voiced is that the partial reforms already implemented cannot be successful until the whole system is overhauled.

Deng's troubles began with the first steps towards liberalising the urban industrial system taken last year. Encouragingly, rural reforms, under which peasants were given virtually total freedom to grow what they thought appropriate and to sell at higher prices to the state or on free markets, had already generated a solid base of reliable food production.

In October 1984 the party's central committee therefore issued a cautious directive increasing industrial and commercial enterprises' authority, releasing some enterprises from central ministry control and allowing some prices to float.

At the same time, under financial reforms, enterprises were permitted to retain a share of any foreign exchange they earned, and to raise loans and pay taxes instead of receiving government grants and handing over all earnings.

These moves came as the peasants began to use their new freedom to start up rural industry to relieve population pressure on the land. The consequence was a huge outburst of building, production, borrow-

The economy

COLINA McDUGALL

ing and expenditure, especially of foreign exchange.

It also meant a drop in grain acreage, a factor of growing concern during the year as bad weather reduced likely yields. Questionable activities such as dealing in imported cars, the involvement of party officials in running businesses and even outright bribery and fraud took off alarmingly.

The Government's attempts at reform of prices (many still unchanged from their 1950s level, reflecting neither true costs nor scarcity value) fuelled the already burgeoning inflation. In October 1984, reforms decontrolled the sale of about half the industrial and agricultural commodities previously sold at planned prices.

In January this year, the grain marketing system was liberalised. Foreigners in China not just for consumer goods but also for construction materials such as steel proved insatiable.

Chinese exports dropped as protectionism held back sales of textiles and the stagnant world oil market restricted petroleum exports. China's Ministry of Foreign Economic Relations and Trade

In March the situation was running out of control. When Premier Zhao Ziyang made his customary report to the

National People's Congress that month, he noted that the money supply had grown at an alarming rate, about half in December alone. The Government payroll had risen 21 per cent, and many enterprises had paid excessive wage rises and bonuses out of bank loans, which in the year had risen nearly 30 per cent.

Figures published separately showed that foreign exchange holdings, at over \$16bn the previous October, had dropped to \$11.5bn by the end of March as enterprises from provincial governments down used their new freedoms to buy cars, mini-buses, or production lines for TVs, refrigerators and washing machines—or sometimes the consumer hardware itself.

It was not easy for Peking's leaders to attack these problems. Gyration in price continued to affect the economy through the summer.

Song Tingming, of the Commission for Restructuring the Economy, told the Financial Times that compared with the same month last year, inflation rates in Canton and Peking in July were respectively 23 per cent and 22 per cent. Industrial growth for the first half year was 23 per cent, compared with a planned figure of 8 per cent, though this slowed to 14 per cent in July-September.

The year's average is still likely to be around 15 per cent. End-June foreign exchange reserves figures, normally published soon after the end of the quarter, appeared three months late and recorded a drop to only \$10.8bn.

This fall reflected a worsening trade situation. Demand in China not just for consumer goods but also for construction materials such as steel proved insatiable.

Chinese exports dropped as protectionism held back sales of textiles and the stagnant world oil market restricted petroleum exports. China's Ministry of Foreign Economic Relations and Trade

MEFT claimed the figure was grossly wrong, and diplomats in Peking believed the SSB had simply projected the first half-year's figures forward without adjusting in accord with government measures taken to amend the situation. But the SSB refused to recant.

Accompanying these problems came disenchantment with the Special Economic Zones (SEZ) and the 14 cities declared open to foreign investment in spring 1984. The leading SEZ, Shenzhen, had been a



Top men in Chinese economic and financial world: Liu Honggu (left) Dep. Gov of China's central bank, the People's Bank of China, who is in charge of its "concrete work." Right: Song Tingming, of the Commission for Restructuring the Economy, the body responsible for planning and implementing China's economic reform

released figures in late October showing imports of \$22.5bn and exports of only \$13.1bn for the first nine months of 1985.

While China makes comfortable earnings on tourism, shipping and similar which help fill the gap, there is concern over the future because of the problems involved in raising exports. The sensitivity of the trade issue was underlined by an unusual public squabble in September when the State Statistical Bureau published an estimate of \$18bn for the country's expected 1985 trade deficit.

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China's economy

	1983	1984	% increase
plan		Yuan bn over 1983	
Total value of social output	n.a.	1,238.5	12*
Gross value of agricultural output	6%	330.2	14.5
Gross value of industrial output	6%	702	14.0
Light industry		332.4	13.9
Heavy industry		364.1	14.2
Total retail sales		Yuan 378bn	33.7

* In constant 1980 prices.
† Sum total of agricultural, industrial, construction, post, telecommunications, and commercial.
‡ In 1984 prices.

Tough line on lending

Banking and finance

ROBERT THOMPSON

HAVING EXHORTED the masses to "get rich through labour," the Chinese Government in the hunt for development funds, has been attempting to raise banking consciousness and convince those who have accumulated some riches to invest, them.

In recent months, the People's Bank of China, the central bank, has lifted deposit interest rates for the second time this year, and in Shanghai, one bank has turned to housing loan lotteries with a prize of an apartment—it is a means of encouraging people to save and of raising funds for housing construction in a city with a chronic housing shortage.

That a bank is allowed to run a loan lottery is a symptom of widespread banking reforms in China in the past year, reforms that the Chinese leader, Deng Xiaoping, hopes will "make banks function like banks."

The five major subsidiary banks—the Bank of China, the Industrial Bank, the Agricultural Bank, the China Investment Bank, and the Construction Bank—are allowed to compete in a few areas, though they must conform to Peking's wishes in what is still ultimately a planned economy.

A lending spree that began in

the second half of last year certainly did not accord with Peking's wishes and contributed to the overheating of the economy.

Blame was put on great lengths to top the lending ladder. The effects showed in lending last year, which was up 29 per cent on 1983, while growth in that year was 17 per cent.

The spree prompted the people's bank to tighten its hold on lending to rural industries, which accounted for 50 per cent of all rural loans last year, and to stress the need for loans to be made to worthwhile projects in line with the government's modernisation programme.

An article in the "Peoples Daily" in late November cited several cases of rural enterprise ineptitude, with ambitious but incompetent enterprises borrowing heavily to start businesses only to see them derailed by their ineptness.

The case of Haotun Village in Hebei Province was given as an example of poor fund management. The villagers, seeing that a neighbouring village was making good money out of fleece, invested 20,000 yuan (US\$4,500) in a fleece factory.

"The raw material should have been 'fleece without long hair' a superior variety, but in fact when the factory went into production it was discovered that the fleeces were the inferior 'long hair' variety. Many townships know nothing about costing and business, and make rough calculations based

only on wishful thinking," said the paper.

Liu Honggu, deputy governor of the People's Bank of China and the person in charge of its day-to-day "concrete work," as he put it, says the bank has acted to slow down lending as "a lot of banks had been competing against each other to lend money."

He says the problem arose because "we lacked experience." Since having learned from the mistakes, the bank has let provincial banks know that they can no longer expect the central bank to carry their losses, as had been past practice.

Provincial banks are now also required to deposit a fixed sum with the central bank so that, as Mr Liu says, "we can try to increase our control over the banks." Those banks must report more frequently on foreign exchange use, as poor monitoring contributed to the slump in foreign exchange reserves from US\$16.3bn in October 1984 to \$10.85bn at the end of June.

Mr Liu says the foreign exchange slump has been arrested and the "biggest problem in macro economic control" is that many people still demand funding for new enterprises.

The Haotun villagers are a prime example of why the bank has taken a tough line on lending.

He maintains that the tough line has worked, but has claimed victory too early.

Investment in capital construction in the first nine months of

plan proposals made few concessions to the conservatives.

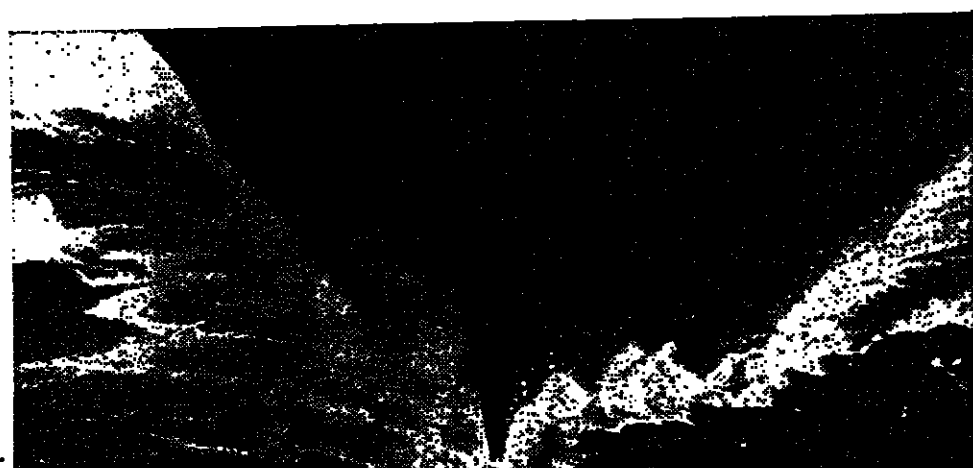
The document was more a policy statement than a plan but continuation of the reform was the keynote.

It emphasised the development of more realistic prices, freer enterprise, improved quality, foreign investment and more service industries while looking to cut in planning and direct control. Yet the defensive tone of Press commentaries in following weeks suggested that criticisms continued.

In November, Vice-Premier Li Peng assured the National People's Congress standing committee that the leadership had begun to "initially" controlling investment in fixed assets, cutting consumption funds, reducing the brakes growth rates, putting the brakes on loans and currency circulation and supervising foreign exchange usage more closely. But it was too early to tell whether these measures had been successful.

Whatever the problems, there is no doubt that standards of living and productivity have risen hugely in China since 1978. Li Peng claimed that 10 national income had risen 10 per cent each year in the sixth five year plan period (1981-1985). At the same time, what he called "the people's consumption standard" had gone up by 7 per cent a year.

If the leadership can prevent the dishonesty, muddle, inflation and waste which has accompanied the liberalisation so far, Deng's road to prosperity will prove a better one than any China has tried so far.



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Output soars to record levels

FUELLED by Deng Xiaoping's economic reforms and insatiable consumer demand, China's industry has rocketed this year. In the first half, it hit an astonishing 23 per cent growth rate, compared to just 14 per cent in 1984—itsself criticised as much too high.

This year's figure was made credible by the constant sight of thousands of Chinese peddling away from their local stores with electric fans, washing machines, televisions and tape recorders stacked on their bicycles.

Higher wages, the new independence allowed to factories and the heavily promoted growth of rural industry all conspired to boost output. The chance to make profits encouraged investment in new equipment. This in turn boosted plant extensions and other construction in the January-June period to 44 per cent above the same months last year, compared with the planned 1.1 per cent for the whole year.

While industrial growth slowed from 23 per cent in January-June to 14 per cent in September, the figure was still well above the planned 8 per cent. It is expected by Chinese officials to end at around 18 per cent for the year.

The biggest production increases were in consumer goods such as refrigerators which nearly tripled their 1984 output, and TV sets which rose by 75 per cent. Duplication of imports such as colour TV production lines which contributed to the rise was pinpointed by the leadership as an important example of how foreign exchange had been misused during the year.

Heavy industry nowhere near kept up with the consumer boom but it registered respectable increases. Coal and steel were both up 11 per cent and 7 per cent respectively in the first nine months.

The figures on their own did not, however, reveal the real workings of the economy, since both sectors were in other kinds of trouble. An estimated 500,000 tons of coal was reported to be bottled up in the coal rich north west of China awaiting transport. The low quality of Chinese steel and delays in supply pushed steel purchases from Japan to a probable \$8bn for the whole year.

These factors underlined two

modern management methods to improve what is currently an abysmal aspect of Chinese industry.

Peking's own venture into boosting management, the urban economic reform launched in autumn 1984, was cut back during the summer because of economic overheating. Factory managers who had briefly been given the freedom to expand their works or buy from abroad lost it again.

"It's quite difficult to manage this factory," says Zhu Zhinan, deputy director of the administrative office of the 6,000 strong Nanking Radio Factory workers.

"It's not as if the director owned the plant—he has to get permission to build new workshops or import equipment. That's a great handicap."

The financial reforms, under which factories must ask for loans, not grants, and pay taxes instead of remitting all profits to the state, have not been cut back though the loan system is to become more searching.

"Our officials will now make feasibility studies of projects put up for loans," say managers from the Nanking branch of the Bank of China.

Heavy borrowing—sometimes used simply to pay wages and bonuses—was an important cause of the economic overheating. But pressure is on from Peking on the banks to say "No" where necessary.

The impact of the tax reform is still uncertain. Peking has brought in a two-tier system with a first stage 55 per cent company tax. In the second stage, if it deems an enterprise is unfairly making too much money—for instance, automobile factories," says Song Tingming, of the Economic Restructuring Commission—a regulatory tax is applied.

"That is necessary in our still irrational price structure," he adds.

China is still experimenting with its management reforms. But until it gets them right, and can induce its often ignorant officials to use them correctly, economic blowouts such as this year's may continue to be a feature of its industrial landscape.

Industry and management

COLINA MacDOUGALL

major problems in China's industry, the acute shortages of transport and good quality semi-processed materials. A third major problem, the power shortage, was intensified by the sudden rise in demand and drastically affected the energy-starved eastern region. Chinese officials said this meant equipment in the area was operating at 20 per cent below capacity.

On the credit side, Vice Premier Li Peng claimed in November that light and heavy industry were now basically balanced. This rectified a situation prevalent almost since the 1950s when consumer interests were neglected in favour of Stalinist-style heavy investment in steel and machine building.

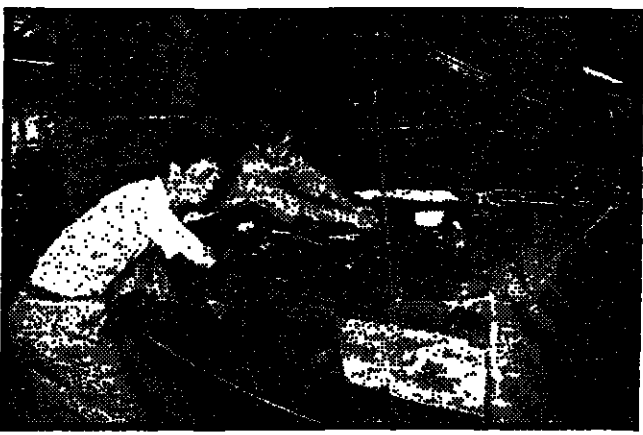
Key issue

Technical upgrading of Chinese industry became increasingly a key issue. This was given a considerable boost in September with the start up of Phase One of the Japan supplied 300-ton a year Baoshan steel works near Shanghai. But Baoshan had experienced huge costs and long delays, an important factor in Peking's switch from modernising with turnkey plants to selective purchase of equipment for existing factories.

Under this "technical transfer" policy, Peking favours joint ventures, co-operative agreements with foreign companies or straight purchase of limited items. Doing it this way, it hopes, will bring in



Examples of technical upgrading in industry: above, the steelworks at Baoshan; and, below, a car production plant in Shanghai. Peking favours joint ventures with foreign companies.



China's Industry

	Jan-Sept 1985	1984	1983
Gross industrial output value (bn yuan)	614	702	609
Light industry (bn yuan)	306	337	295
Heavy industry (bn yuan)	308	364	313
TV sets (m)	12	10	7
Washing machines (m)	7	6	4
Refrigerators (m)	0.96	0.54	0.19
Coal (m tons)	626	772	715
Electricity (bn kwh)	301	375	351
Crude Steel (m tons)	25	43	40
Motor vehicles (m)	0.34	0.32	0.24

Source: State Statistical Bureau communiqué.

War on corruption

JOURNALISM in China is still but a distant cousin of its Western counterpart. Television and newspapers are tightly controlled by the state and the Communist Party and remain principally instruments of propaganda, much of which makes for heavy viewing and reading.

But in the China of today there is one subject, corruption, in which the interests and policies of the state and the existence of a controlled press combine to produce at least the illusion and possibly some of the substance, of classic Western style investigative journalism at work.

A good example of this is Canton's (Guangzhou's) lively afternoon daily, the Yangcheng Evening News. It conforms to type in that its six-member editorial board is appointed by the Party, but there are ways in which this four-page (sometimes eight), 1.87m circulation publication is cut from a different, albeit distinctly Chinese cloth.

It is consciously "popular" in presentation, according to Mr Li Zuoxing, deputy editor, from the editorial board. Unlike rival Canton newspapers which write mostly for the cadres, the Yen pitches itself at the masses and claims to draw its strength from them.

It runs short, snappy stories, devoted to local, human interest and publishes a daily half-page of sport. It even sent a reporter to Japan to cover an international women's volleyball championship.

It carries cartoons, takes advertising (Yuan 20,000 for a half page) from both state enterprises and new private companies and carries a daily front-page column featuring readers' complaints and criticisms. It receives 40 such calls a day.

Above all, it has sunk its teeth with discernible relish into corruption. It is taking its lead from authority, which has decreed that corruption is

a national problem and a threat to the effective implementation of Deng's new economic policies.

Canton had probably the juiciest national scandal on its own doorstep, involving Hainan Island car deals. Hainan, off the Guangdong coast, is one of the country's 22 "open" areas. As such, Peking allowed it the special privilege of being able to import, free of duty, foreign cars for local use on the island.

Hainan Island officials arranged for the import of 70,000 cars, a lot for a local population of 3m to 4m—many

YEN's staff concede that this story was largely broken by the authorities, but with its appetite whetted, it has begun to seek other examples of corruption on its own account.

Its most notable campaign was to uncover a housing redevelopment scandal in Canton. This involved the renovation of downtown housing and the temporary displacement of 100 families, all of whom had been promised a move back once reconstruction was complete.

However, only 60 families were accommodated; the other 40 apartments were mysteriously allocated to officials from the construction company and their friends, relatives and connections.

Yuan Xiaoxian, deputy chief reporter, says the disgruntled displaced families tipped off the newspaper and prompted its first stories. The Canton Communist Party was initially not entirely pleased with the scoop, but its own invest-alive team vindicated the newspaper.

This has spawned further disclosures, especially in the housing sector, which is a local problem. The YEN's 50-strong reporting staff is kept on the move checking complaints.

The Yen's more staid competition seems also to have been infected. The Guangzhou Daily, published by the city communist party, ran to Mr Yuan's chagrin, a detailed story of how five employees of a state construction company had garnered Yuan 176,000 in bribes over the past two years.

The investigative mood can be stopped as easily as it has been started. The privileges and protection that the upper cadre ranks still enjoy in China are such that many remain untouchable, regardless of what they may have done illegally.

But for the present, there are some Chinese newspapers, like the YEN, devoted to something more titillating than the latest tractor output figures.

Campaign in Canton

JUREK MARTIN

of them rural, ethnic minorities. Suspicions were aroused but by the time the authorities stepped in earlier this year, 12,000 cars had been re-sold at a profit to customers on the mainland.

Most of the customers, ironically, were state enterprises, to whom a modern foreign car had become both a necessity and a status symbol.

The State Materials Bureau in Peking took possession of the remaining 58,000, some of which had been contracted for but not delivered. The vehicles have been paid for and the Bureau is arranging for their distribution "in a unified manner."

There is still a debate over whether Hainan Island officials were guilty of "economic crimes" or merely misunderstanding official instructions, but several are now otherwise engaged.

The scandal had a national impact. Peking has barred virtually all foreign car imports, for at least until it disposes of its new possessions.

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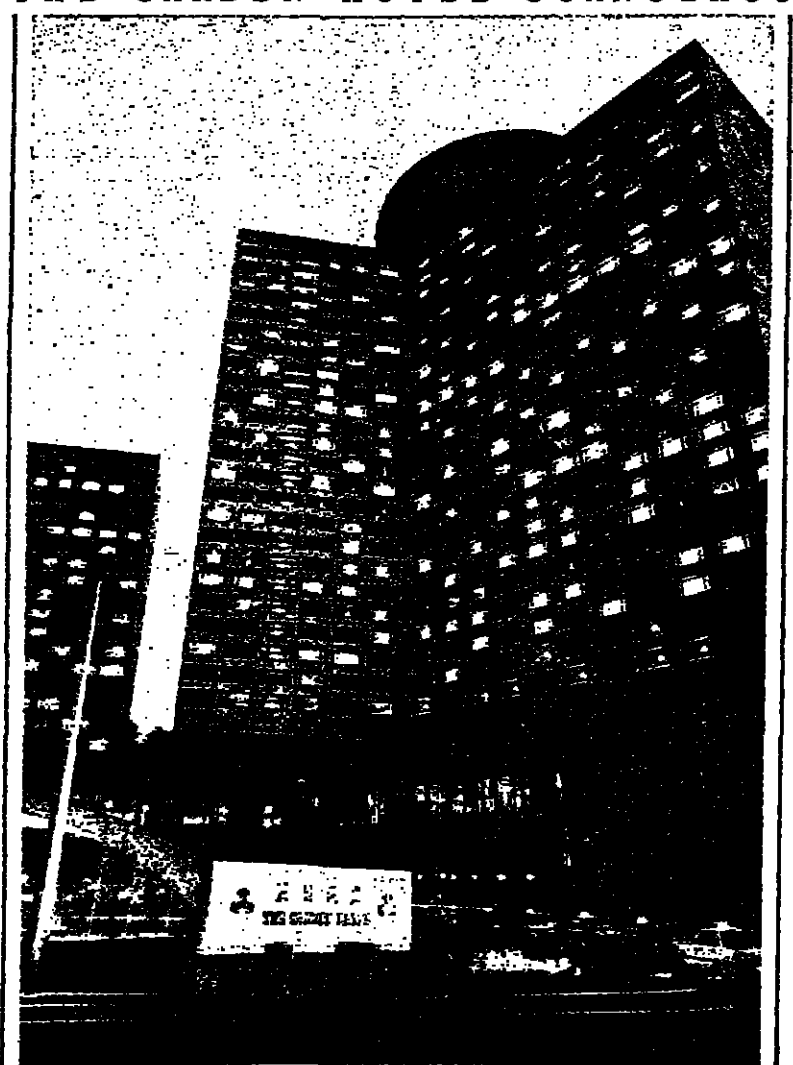
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China 6

A dramatic rise in production

Agriculture

DAVID DODWELL

CHINA'S FARM output has risen rapidly in recent years—so rapidly that some foreign economists fear the country's planners may make the mistake of leaving the sector to look after itself.

The mistake would be an easy one to make. Areas of the country that were on the verge of starvation in 1979—like Anhui Province, inland on the Yangtze, or Guangxi in the south-west—are now making substantial surpluses of basic crops such as grain, cotton and oilseeds.

Rural incomes have tripled since 1979, and a substantial amount is being spent on new homes and improving rural roads and rail links. From being one of the world's largest food importers, China last year became a net exporter, with major exporters of farm products like the US wary that China will soon become a significant competitor for export markets.

Nevertheless, Frederic Suris, an agriculture expert who heads the China Section of the US Government's Economic Research Service, recently warned that China's farm sector is entering "an entirely new environment of uncertainty and risk" as the Government tries to introduce a greater responsiveness to market forces, and to reduce its role in production and distribution.

Flexibility

Mr Suris notes that the limited reforms of 1978 to 1983 improved flexibility and profitability in China's farming sector without altering the distribution system, or the safe environment in which the Government guaranteed to buy farm produce at fixed prices.

Reforms since 1983 have removed this risk-free environment—something that farmers in western economies take for granted, but is quite new to most Chinese farmers.

"Reactions to the adverse side of the new system have yet to be seen," he says.

Other economists warn that this strong gains that have come from demolishing the collective system and replacing it with the "rural responsi-

bility system" cannot be expected to sustain such growth for very much longer—particularly since very little investment is being put into critical areas like irrigation, pest control, and the scientific use of fertilisers.

According to Nicholas Lardy, a US economist studying China's agriculture, investment in agriculture has fallen by half since the late 1970s. Irrigated acreage has fallen, pesticide use has slipped, and collective and household investment significantly down.

"The Chinese have never invested less in agriculture than they are today," he said. "When agriculture was growing at 8 per cent a year with no investment by the state, why bother to discuss investment?"

Despite the fact that no one can pinpoint the exact reasons for China's strong agricultural performance, the improvement is dramatic and undisputed by foreign observers. National grain production rose to a record 407m tonnes in 1984, with wheat output 40 per cent higher than 1979 at 87.7m tonnes. The 1984 rice crop, at 178m tonnes, was 24 per cent better than in 1979, these gains have come almost entirely from higher yields.

China is now the world's sixth largest producer of sugar, with a 4.31m tonne crop this year, while cotton output, at about 6m tonnes, is 175 per cent above the 1979 level. Stocks of cotton are now understood to amount to over a year's national demand, and account for about half of the world's total cotton

stocks. Burgeoning surpluses have put a strain on storage space, and on the country's rudimentary transport system. Policies intended to create surpluses of staple crops like wheat or cotton are now being put into reverse in an attempt to persuade farmers to shift into more cash-crop production.

The Government has trimmed its planned purchases of grain to between 75m and 80m tonnes, from 100m tonnes last year, in its effort to reduce inventories. Perhaps even more critically, it is trying to reduce grain subsidies, which amounted to Yuan 18bn last year—about a third of total government subsidies, absorbing 15 per cent of budget income.

Farmers failing to shift into alternative crops may suffer a setback this year, as they are unlikely to be offered the

attractive prices for surplus grain that they have been in the past.

Cotton producers are likely to be even more hard-hit if they are tardy in responding to the changed policies. The Government has said that it will buy just 4.25m tonnes of cotton this year—barely 70 per cent of the 1984 crop.

Since state-controlled textile factories have a virtual monopoly on national demand for cotton, farmers are unlikely to sell surplus production at anything but nominal prices. As a result, national production of both cotton and grain is expected to fall this year. The 1985 grain crop is expected to be about 4 per cent down at 390m tonnes. Acreage is likely to be transferred to oilseeds, vegetables, fruits, tea, tobacco, and raising livestock.

Industry hit by power cuts

Energy shortages

ROBERT THOMPSON

THE LETTER-WRITER to the China Daily newspaper conceded that she was fortunate to have a refrigerator, a symbol of modernisation in urban China. But she asked, what is the use of having a refrigerator if power blackouts regularly spoil the food inside?

That disgruntled Peking resident is a victim of China's acute energy shortage, which, along with an under-developed transport system, are the most serious maladies afflicting the country's economic development. Both are top of the priority list for the seventh five-year plan, beginning next year.

There is just not enough energy to go around—50bnKW is the official shortfall this year—with factories lying idle for up to several months waiting for their quota of power to come on line, and others hit by sudden blackouts, halting production and disrupting supply schedules.

While the problem has been clearly identified, the Chinese Government has shifted its focus on the solution, with an ambitious nuclear plant programme to generate 10,000MW by the end of the century apparently melting down to more modest goals.

The innumerable visiting energy delegations, who have noticed the emphasis on energy development and figure there is a dollar or two to be made in the process, are being told to think "thermal." It is explained that China is looking to build more smart thermal power stations and is interested in foreign technology to facilitate their development.

Emphasis has also shifted on the development of oil and gas reserves because the funds thus far have not matched the great expectations of Chinese officials. The South China Sea has been a disappointment, though the Chinese are reluctant to admit it.

Exploration

Nevertheless, they do admit to shifting their aim to the most recent round of bidding for exploration rights in the region from the hoped-for bonanza find to smaller reserves, and have offered incentives to foreign contracting companies to exploit those finds.

A spokesman for the China National Offshore Oil Corporation (CNOOC), Chen Bingqian, said a "more flexible approach" was taken during negotiations this year for the second round of bidding for rights in the area. The lures included a reduced "contribution fee," which all successful bidders are charged, and royalty payments designed to encourage the development of smaller fields.

Negotiations for second-round contracts should be finalised by early next year, Mr Chen says, and at the time of writing, three foreign companies had finalised agreements with CNOOC.

As for gas, Atlantic Richfield reached an agreement with Chinese authorities in late September, after two years of negotiation, to extract and sell natural gas from a large offshore field the US company discovered in the South China Sea, near Hainan Island, off the coast of Guangdong Province.

CNOOC has agreed to build a pipeline to carry the gas to Guangdong, where it has plans to build a power plant. A portion of the power will be used in southern China, and the rest sold to Hong Kong to earn hard currency.

The tortured history of a US\$4bn, 1,300-Mw nuclear power plant in Guangdong, at Daya Bay, is a reflection of the difficulties plaguing a nuclear programme that was to have 10 plants constructed by the end of the century with a generating capacity of 10,000 Mw.

Protracted negotiations over the supply of equipment by Britain's GEC and Framatome of France have pushed the expected completion date way past 1991, and Chinese officials have indicated to the Financial Times that time has been of no great consequence in their quest to win discounts of 25 per cent from GEC and 20 per cent from Framatome.

Coal reserves The vice-minister of nuclear industry, Chen Zhuo, says that China is now "thinking" of generating 10,000 Mw by the end of the century, but "it is not a fixed national plan."

Mr Chen says that China has plentiful reserves of coal (estimated at 780bn tons) and usable water (hydro power makes up 20 per cent of energy generated)—but the geographical distribution is not very balanced. About 60 per cent of coal deposits are on the northern side and 71 per cent of hydro resources are in the south-west, he says.

The bulk of those reserves, he adds, are away from the prime industrial areas on the coast, and the south-east region has been particularly retarded by energy shortages, so nuclear power is "very important in meeting the greater needs for energy."

Paradoxically, China is still importing coal from Australia because the internal transport system is overburdened. The Australian Resources and Energy Minister, Senator Gareth Evans, who was in China in November, received assurances that spot purchases would continue indefinitely.

The prohibitive cost of nuclear technology, which has forced a country such as South Korea to trim its nuclear plans, is no less a problem for China. Diplomats say that the Chinese had based their ambitious plans on unreal expectations of mastering the technicalities of nuclear technology in a short period.



China was once one of the world's largest food importers, but has now become a net exporter. Above: vegetables being sold in a Shanghai market.

about 14 per cent of the total rural workforce—are now employed in township industries rather than directly in agriculture. A high priority is being given to rural industries—like processing vegetables, fruit, meat and edible oils, manufacturing other agricultural products, and providing services to the rural population to prevent a drift of workers into towns and cities.

The Government now boasts 25m "specialised households" that are essentially working alongside the state system, providing rural transport services and other rural services, and working in the 56,000 free markets across the country. According to US estimates, retail sales outside the Government system accounted for 15 per cent of all retail sales last year, having risen from 10 per cent in 1979 to Yuan 50.4bn.

These developments are adding urgency to the need for the Government to improve China's rural infrastructure. About 40 per cent of the country's villages are still without electricity, and just 20 per cent of its meagre road network is metalled.

Marketing

High priority is also being given to improving marketing—though without major improvements in long haul road and rail links it is difficult to imagine how far this can go. The specialised households are playing a major part in the changes, providing services the state sector is still too cumbersome to provide.

As Frederic Suris notes: "While the changes being introduced are essential to the long-term vitality of the farm sector, they are likely to generate significant short-run adjustment problems. These create substantial uncertainty about the overall growth of agricultural production, the mix of output over the next several years, and the future direction of agricultural trade."

They also create major risks for the Government if the transition proves to be more difficult than expected, and if agriculture adds to the inflationary pressures that China is now experiencing. Despite the successes of the past five years, now is clearly not the time to leave the agricultural sector to look after itself.

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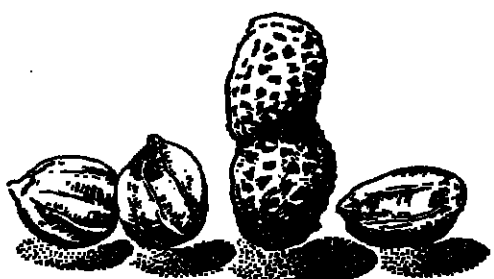
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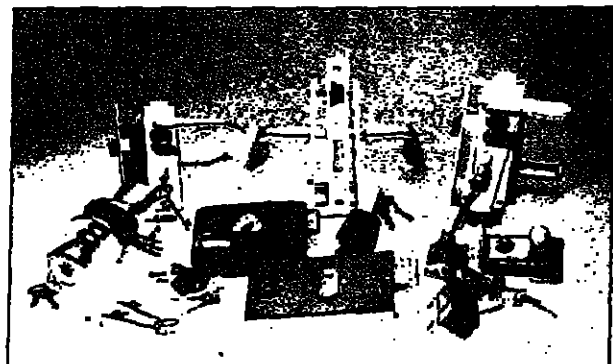
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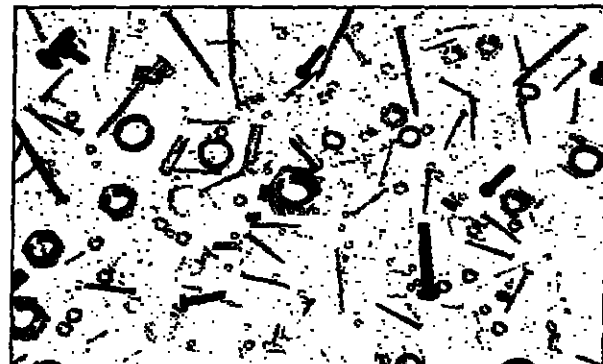


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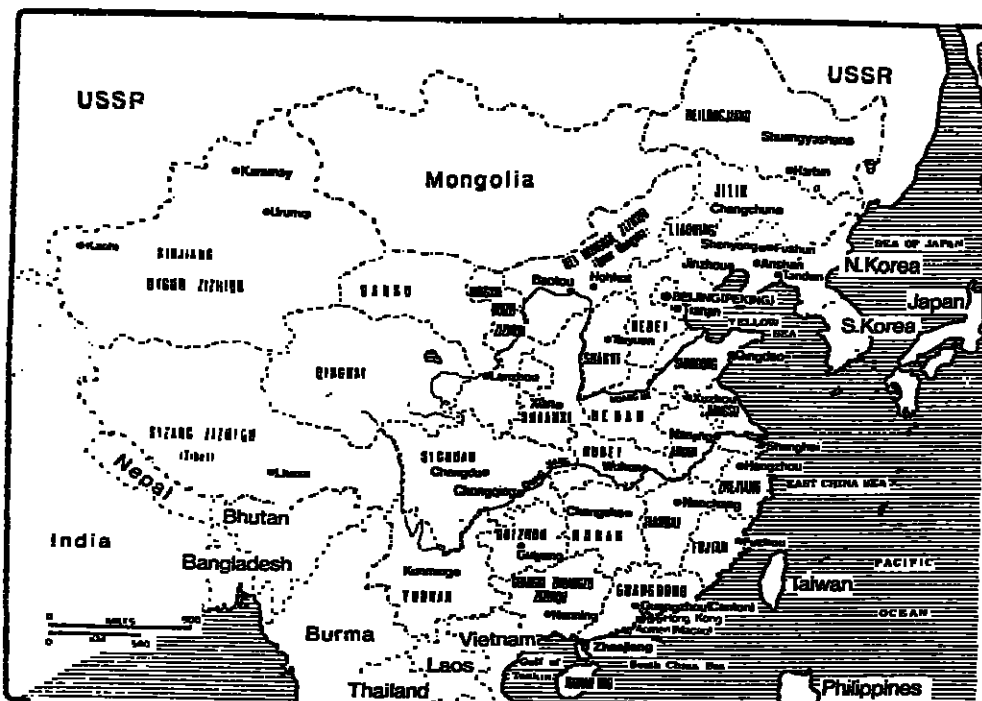
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Times have changed both on the mainland and in Taiwan. Three years ago, the trickle of trade through third world countries swelled to a flood as China's more open policies created a demand for more consumer goods. Above, ships ready to unload at the port of Shanghai

Significant change in position

China and Taiwan: political complexities

BOB KING

THE BANK OF CHINA in Beijing nowadays gladly exchanges new Taiwan dollars for Chinese renminbi. A Taiwan Government press card gains one entry to the Foreign Ministry in Beijing, and in a pinch will even guarantee the availability of a taxi after dispatchers have insisted there are no taxis in the city.

But despite these conveniences, and despite the oft-stated commitment of officials on both sides of the Taiwan Straits to the idea of a united China, the Taiwan-China issue will likely take years, if not decades, to resolve.

The unlikelyhood of an early resolution, in turn, worries the leadership in Beijing, who would like to go down in the history books as having repeated the feat of emperor Chin Shih Huang-Di, who in 221 BC became the first man to rule a united China.

The Beijing leadership fears, perhaps understandably, that the longer Taiwan is away from the fold, the less attachment its citizens will feel toward China, from which it has been isolated for more than 35 years.

For this reason, the Chinese in recent years have changed their posture toward the nationalists on Taiwan. Instead of threats and harassment, the nationalists, who fled their homes in China in 1949, have been stroked and courted, invited to take part in a government of greater China, assured of a warm welcome home.

In further support for this soft line, the leaders in Beijing have co-opted the ghost of Sun

Yatsen, whose revolutionary movement in 1911 overthrew the corrupt Qing Dynasty and whom the Taipei leadership has enthroned as the founding father of the Republic of China.

Former Nationalist leader Chiang Kai-Shek has been to some extent posthumously rehabilitated, too, and China has through the media informed Taiwan that the Chiang family's homes and tombs, are being maintained and relatives of nationalist leaders "are being properly looked after."

Behind this lies the sentiment that Taiwan's President Chiang Ching-kuo, the son of Chiang Kai-Shek, might be persuaded to seek a reconciliation with Beijing in his lifetime. Mr. Chiang, who is 75 and ailing, is seen officially in China as a patriot who holds as firmly the principle of one China as does the present leadership in Beijing. Thus, the reasoning goes, he may be as anxious to settle the matter as the mainland leaders are, before he departs the scene.

This leaves out the current reality of Taiwan—a reality of which the rank-and-file on the mainland is apparently unaware. Taiwan's per-capita income, for instance, is roughly 10 times that of the mainland. Private enterprise on Taiwan remains the rule, compared with state control of nearly everything across the straits.

Although Taiwan's regime is still considered repressive in certain areas, and official corruption is still a major, though unadmitted, problem, Taiwan's citizenry enjoys freedoms that their colleagues on the mainland might not even dream about.

Beijing has responded to Taiwanese concerns by saying that the island, under a unified mantle, would still maintain its current system and even its armed forces—much the same blueprint as laid down for Hong Kong after 1997.

But the Taiwanese, with 36 years of nationalist schooling on the nature of communism

under their belts, not to mention a fairly clear understanding of what happened to other regions such as Tibet that were in the past guaranteed autonomy by Beijing, are not interested. Events now unfolding in Hong Kong may only serve to bolster that disinterest.

In fact, bread-and-butter issues tend to dominate the thinking of everyday Taiwanese on the question of possible unification with China. "If they improve the economy so that the people over there live as well as we do, and give the people the same freedoms we have, then I wouldn't mind unification at all," says one young, non-political Taiwanese recently. He added, though, "improvements and freedom like that can't happen under the communist system."

As frustrating as the current separation may be to some, it also brings some benefits to both sides. The Nationalist Government, for instance, uses the "communist threat" as

justification for stifling criticism and opposition on Taiwan, while Beijing can "ring the Taiwan Bell" as one observer in Taipei calls it, anytime it wants something from the US.

Just prior to vice-president George Bush's recent visit to Beijing, for instance, the Beijing Review ran an article which essentially called the US the main obstacle to unification with Taiwan through its implementation of informal, though substantive links after recognising Beijing.

The article essentially called on the US either to bring pressure on Taipei to start negotiations, or at least refrain from what Beijing sees as its support for Taiwan's current stance of "no negotiations, no contacts, no compromise."

During a recent interview with the Financial Times, Vice Foreign Minister Zhou Nan, who negotiated Hong Kong's future with the UK, restated Beijing's official policy on Taiwan: re-unification is a

purely internal affair which reflects "the aspiration of all Chinese" and which can be settled using the concept of "one country, two systems."

While admitting that "the Taiwan question is different from the Hong Kong question," vice-minister Zhou said, "our approach is, we still want to use the concept of one country, two systems in resolving the Taiwan question, and the terms regarding Taiwan will be more liberal than those offered Hong Kong."

Vice-minister Zhou also referred to what he called "interference and obstruction" by the US for instance, "after the signing of the British agreement on Hong Kong, the leaders of the US openly expressed their approval of such an agreement, and of our using the concept of one country, two systems to resolve the Hong Kong question," he said. "Yet, when we raise the possibility of resolving the Taiwan question using one country, two systems, the US remains silent."

Excuse

"The US has announced that they are not involved in the Taiwan question, but actually they are involved and continue to involve themselves," he added.

Actually, their non-involvement is only an excuse. If there is no such involvement, then why did the US adopt the Taiwan Relations Act? Would you call that non-involvement?" But there are other indications that China, preoccupied as it is with its modernisation programme, is prepared to let the Taiwan question simmer on the back burner for considerable time, despite the official rhetoric.

Only internal de-stabilisation, a declaration of independence, or an intrusion by a foreign power is likely to upset the balance, various observers say. Above all, China wants a peaceful resolution to the issue so as not to disrupt its modernisation. Modernisation, in turn,

will take decades, and thus serve to delay resolution that much longer—all things remaining equal.

While Taipei's official line still holds that Beijing could at any moment decide to bring military or economic pressure to bear on this island, many others are assuming that the road to unification, under whatever conditions, is likely to be a long one. Too, pragmatic sentiment holds that the ball is in Peking's court rather than Taipei's—and that the stroke required is the betterment of life for Chinese on the mainland.

The substance of Taipei's responses to overtures by the People's Republic is that talks are impossible until such time as Beijing provides a standard of living and a quality of life for the Chinese people comparable to what Taipei provides, says Milton Yeh, a researcher at Taiwan's Institute of International Relations.

Mr Yeh also suggests that Peking's anxious insistence upon reunification stems less from territorial and ideological reasons than from emotional ones. Current leaders on both sides share "guanxi" or "relationships."

Many of the current leaders in both Taipei and Beijing studied together: their families intermarried; ultimately, they fell on opposing sides in the ideological and civil conflict, with all the wounds that such a conflict engenders still unhealed.

Under such emotionally-charged conditions, Mr Yeh maintains, talks between the two sides could hardly be equitable, no matter what assurances Beijing offers, and nationalist participation in a unified government such as Beijing suggests would be minimal.

"If we sit down to talk, then we lose," he says. "So naturally Taiwan doesn't want to sit down. It seems clear they (the People's Republic) want to dominate the game."

Pragmatism wins through for now

China and Taiwan: trade links

BOB KING

IN STRONGLY-PRAGMATIC Taiwan, business is a major pre-occupation, and, as an island whose 19m people make for a small home market, business in Taiwan means trade with whoever has the money to buy.

An exception until recently has been the Chinese mainland. Aside from a trickle of Taiwanese manufactured goods such as calculators and radios exchanged on the high seas by Taiwanese fishermen for such prized mainland commodities as medicinal herbs and spirits, and a small amount of goods traded indirectly through ports such as Hong Kong, the Taiwanese eschewed dealings with what many considered their natural market.

Politics had over the years formed a more effective barrier to trade between Taiwan and the mainland than tariffs or embargoes ever could. For Taiwan has since 1949, the year Chiang Kai-Shek fled with his nationalist followers in the wake of the communist victory, considered the mainland of China "bandit territory" ruled by "usurpers."

Few Taiwanese, whatever the profit incentive, cared to tempt either fate or Taiwan's security agencies. The latter would more than frown on instances of "trading with the enemy."

Times change and pragmatism has for the moment, at least, won out on both the mainland and Taiwan. Beginning about three years ago, the trickle of trade through third world countries swelled to a flood as China's more open policies created a demand for more consumer goods. Taiwan represented a natural source for many of these goods: its citizens were ethnically Chinese and its goods were relatively inexpensive and reliable.

Furthermore, China's leaders sought to make political points by breaking down Taiwan's policy of no contact with the mainland through such trade. One early incentive to Taiwanese exporters was the waiving of import duties on Taiwan-made products. The rationale: Taiwan, as part of China, was thus technically not exporting to the mainland, just as the mainland technically was not importing. Thus, no tariffs need be levied.

Such distinctions, plus the apparent willingness of Taiwan authorities to look the other way as third-party trade went on, caused two-way business to surge to \$554m through Hong Kong alone during 1984. Although figures were not available for other third-party ports, some observers estimated that

trade with the mainland—mostly made up of Taiwanese exports—may have gone as high as \$2bn during the year, or close to 4 per cent of the annual GNP.

But the Taiwan Government has gone beyond its earlier passive stance on the question of indirect trade with an apparent endorsement of such trade. Around the middle of the year, both Taiwan's top economic planner, former Economics Minister Y. T. Chao, and the Government spokesman Chang Ching-Yu, said formally that the Government would not interfere with such trade provided it was conducted through third parties.

Chao said that Government involvement would be limited to alerting exporters to the potential danger of dealing with China, and to encouraging manufacturers to devote only a minor portion of their production capacity to orders from the mainland. The dangers of over-reliance on the mainland market were brought graphically home a few months ago as China saw its foreign-exchange reserves plummet due to ineffectual importing by the authorities in several provinces. Some orders were cancelled at the last minute, causing several shakily-financed Taiwanese companies to collapse.

Perhaps the most widely publicised troubles occurred at Pailija, Taiwan's largest manufacturer of Vespa-type motor-scooters. Pailija was left with more than 4,000 motorbikes worth \$2m literally sitting on the docks waiting for shipment when China closed the tap—and proved an almost-perfect case-study of what the Taiwan government had been warning businessmen about.

Trade figures

Despite China's on-and-off policies towards imports, though, indirect trade with Taiwan will likely double this year. Hong Kong Government statistics indicate that during the first half of this year, trade between Taiwan and the mainland that passed through that port amounted to \$598m, compared with \$554m for all of 1984. Taiwanese exports came to \$530m during the half year—an increase of 276 per cent over the same period last year. Chinese exports dropped, from \$70m to \$68m.

Those figures do not take into account other indirect trade through Japan, which traditionally has contributed measurably to the two-way total. Nor do they address transshipments through Singapore, a port that Taiwanese businessmen say is receiving greatly-increased attention from savvy traders on the island.

Further, all accountings ignore what several sources have said are enhanced direct-trade connections in outright defiance of Taiwan government policy and the security forces.

Testifying to the growing direct links, the Taiwan Garrison Command, which is responsible for Taiwan's internal security, announced in September

that it had three months earlier arrested three Taiwanese businessmen who allegedly travelled to mainland China to "sign contracts."

Moreover, a Hong Kong-based China watcher told the Financial Times in November that two-way direct traffic through the port of Quanzhou in the Chinese province of Fujian amounted to \$30m worth in the first quarter of this year—three times the level during the same period in 1984. He predicted that the yearly total through that port alone would reach \$100m, and that trade through Fujian province as a whole would amount to \$300m.

Destination

Taiwanese exports, which accounted for 70 to 80 per cent of the traffic through Quanzhou during the first quarter, consisted mostly of electronic and textile products, while China provided liquor, medicines, herbs, porcelain, handicrafts, iron ore, and food. All Taiwanese merchandise, the China watcher added, entered free of duties.

It is unclear whether Taiwanese exporters who sold the goods were aware of their destination, or whether the carriers simply changed bills-of-lading on the high seas and shifted course for Fujian after departing Taiwan.

But it is clear that there is a rising sentiment on Taiwan for direct trade. One of several links proposed by China's Ye Jianying in 1981. Leading businessmen have publicly lent their voices to such trade in recent months.

Zong-Shian Yu, head of the Economics Institute of the Academia Sinica, the nation's highest research body, and of the Chungshu Economics Institute, recently said, "My institute, as well as many of my friends, have made several recommendations to the Government to leave them (people conducting direct trade) alone. But so far the government hasn't said yes."

More worrisome to the Government than direct-trade links with the China mainland, though, are reports that Taiwan nationals have already begun investing in China through joint ventures with provincial and local governments. China has been quietly encouraging such ventures, which it sees as a way of bringing light industry into depressed areas and at the same time drawing Taiwan back into the fold.

A source said recently that as many as ten such ventures are now either operating or under negotiation in Fujian Province. They provide jobs and technical know-how as well as light, affordable products for local consumption, and could form the basis for future export industries with extremely low labour costs—thus putting further pressure on Taiwan's own traditional, but marginal, export industries.

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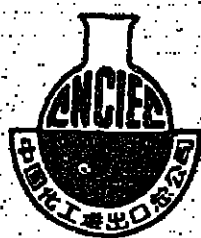
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Year of rising discontent over trade

China and Japan

JUREK MARTIN

UNTIL this year, relations between China and Japan culturally and historically linked but bitterly estranged for much of the 20th Century, had seemed impressively calm. This in itself constituted no mean achievement for both nations, since "normalisation" had only occurred little more than a decade before.

Japan had emerged dramatically as China's largest foreign trading partner. Mr Yasuhiro Nakasone, the Japanese Prime Minister, had been to China and a succession of Chinese government leaders had come to Japan. There was much discreet talk of diplomatic co-operation on a number of common regional problems, such as the future of the Korean Peninsula. However, 1985 has produced a different story, on both the political and economic fronts. China now is complaining that Japan is unreasonably exploiting its new opportunities by concentrating only on selling to China rather than investing in it.

Insensitivity

Furthermore, it has accused elements in the Japanese government of being insensitive to China's feelings by harping back to its militarist era which had brought the two nations into war.

The manifestations of Chinese discontent have, to date, been mostly symbolic, but in a part of the world where symbolism matters, they must be taken seriously. Certainly, the Japanese side does; the government in Tokyo has reinforced pronouncements from Peking by telling Japanese manufacturers that they cannot expect China to be the vast consumer goods bazaar that appeared briefly to be in the process of creation.

The incidents that have disturbed the waters include at least two anti-Japanese demonstrations, in Peking and Chengdu, in September and October. Officials in both capitals agree that they stemmed from Chinese commemoration of the 40th anniversary of the end of the last war (in which China lost 20m people at Japanese hands). Japan fears, but China does not concur, that the demonstrations were officially inspired.

Chinese sentiments had been additionally rubbed raw by Mr Nakasone's visit, in his official capacity, to the Yasukuni Shrine in Tokyo which houses the souls of Japanese war dead, including those convicted of war crimes against China.

Mr Nakasone's purpose is to

get his country to recognise, rather than forget, its past, good and bad, so as to build a healthier nationalism.

The Chinese view is that he was pandering to militaristic circles in Japan to whom the last war was far from bad. In the event, and exceptionally, China lodged formal protests, and had Mr Shintaro Abe, the Foreign Minister, come to China to receive them.

The message was taken on board in Tokyo. In mid-October, Mr Nakasone found it convenient to forgo another planned shrine visit.

To the Foreign Ministry in Tokyo, the whole affair, combined with the Japanese economic "invasion" of China, has created unease, especially in the minds of the Chinese intelligentsia about the changed relationship between the two countries.

Once deeply in debt to China for language and Confucianism, Japan has now, certainly in the material sense, emerged as China's teacher, an uncomfortable reality for a nation like China with a deeply imbued historical sense of its own superiority.

Mr Zhou Nan, the blunt, outspoken deputy foreign minister, prefers not to see the debate in the same terms. He argues that the Chinese people, like others in Asia, have every reason to fear a revival of militarism in Japan and thus a duty to speak out against it whenever it occurs.

Later in 1982, China, South Korea and several south east Asian countries had vigorously protested against an attempt by the Japanese Ministry of Education to rewrite school history textbooks in a way that cast Japanese aggression in the 1930s and 1940s in a more neutral light.

Japan backed off on that occasion and Mr Zhou, equally, found Mr Nakasone's decision to forego another Yasukuni Shrine visit as "sensible". The commercial disputes are more concrete, though they, too, have their symbolic side. In November, the Chinese Government ordered that several large billboards advertising Japanese products in the centre of Peking be taken down.

The hard numbers show that China, which ran a surplus on bilateral trade with Japan as recently as 1983, ran a deficit of over \$4bn in the first nine months of this year. Japanese exports to China, which were up by about 50 per cent in 1984, had doubled in 1985, far outstripping a modest increase in Chinese sales to Japan.

What concerned China was that Japan was selling precisely those consumer goods (cars, televisions, household appliances) which China might reasonably expect one day to re-export itself. In the process,



China is complaining that Japan is exploiting its new commercial opportunities by selling to China, rather than investing in it. Stores in Peking sell imported watches, above, and TV sets, below.



It was eating into China's once large but by no means infinite foreign exchange reserves, which had fallen to about \$10bn by this autumn from \$17bn a year before.

To conserve foreign exchange and to focus on those sectors which can generate hard currency earnings, China has effectively put a halt to the consumer goods gravy train: car imports have been virtually banned, while intense scrutiny is now being applied to weed out "duplicate" imports.

Reluctance

Equally inconsiderate of China's needs, in the Chinese view, was the pronounced Japanese reluctance to authorise transfers of the technology that China makes no secret of wanting.

The best-known example of this is Fuji Film's \$150m plant in Guangdong province; only by threatening to turn to Eastman Kodak was Fuji induced to provide technology not already redundant in Japan, provincial officials argue. Even then, they believe that, by the time it is working, the machinery will be redundant in Japan itself.

If recent history proves anything, however, it is that the Japanese businessman learns and adapts fast. Japanese capital investment in China, though still heavily concentrated in oil exploration, is on a marked upswing (five such projects three years ago, nearly 60 today).

Even though Chinese officials often express a preference for dealing with American and European companies, Japan's cost and geographical advantages make it a formidable potential supplier, more than willing to step in where other Western interests falter.

In terms of broad political co-operation, however, no such intimacy yet exists. Japan's deep US connection is a problem to China as it evolves more of an anti-Soviet and less of an exclusively anti-Soviet foreign policy.

There seems to be much less meeting of the minds on common issues such as the two Koreas than might be imagined. Indeed, North Korea's recent conciliatory stance may owe as much to advice from Mr Gorbachev's new regime as it does to Mr Deng's, with or without help from Japan.

A key test of political co-operation may occur next year, as Japan renews its drive for permanent membership of the UN Security Council. The two nations have consulted freely on the role of the international institutions, especially the United Nations, in which process Japan has indisputably helped China.

In this case, however, it will be Japan which is asking China for assistance. Whether or not it is forthcoming will speak volumes for the true nature of the relationship between two such important neighbours.

West Germany sets the pace

European trade links

RUPERT CORNWELL

IF ANY one state stands out in the crowded recent history of trade between China and West Germany, then it is the second week of October 1984. Chancellor Helmut Kohl was completing a state visit to the People's Republic, and any doubts about its success were banished by two separate announcements.

After years of discussion and patient negotiation, Volkswagen signed a DM 500m deal for the production of its Santana model in China. The joint venture agreement was not only the first of its kind between Peking and a foreign car manufacturer; it also signalled the arrival—albeit not at once—of the era of the private car in China.

Then, just a few days later, word emerged that Schloemann-Siemag, the engineering company which is 50 per cent owned by the GHH group of Oberhausen, had been picked to build a new rolling mill at the Baoshan steel complex near Shanghai.

That contract too had a double significance. It was important for its sheer size: the new mill, in which the electrical concerns Siemens and AEG are also involved, is worth a total of DM 1.3bn. Even more, however, it was a confirmation of China's intention to lift its previous freeze on major capital goods imports from the west, as the first stage in the strategy of Mr Deng Xiaoping, China's guiding leader, to embark upon an "open door" policy to modernise the national economy. In the subsequent months, the impetus generated by the Kohl trip and its attendant economic triumphs has been, to put it mildly, maintained. Scarcely a week has passed without news of further ties between the two countries—ranging from com-

mercial contracts to development and training aid from Bonn and the reciprocal establishment of more industrial and commercial offices. The individual cases are legion.

China now has full-scale trade centres in Cologne and Hamburg. Westdeutsche Landesbank seems set to become, at the start of 1986, the fourth West German bank to have a representative office in Peking. Dresdner Bank, already there, broke new ground in January by inaugurating, with Chinese and Japanese partners, a leasing venture in which for the first time the Bank of China is collaborating with foreign banks within China itself.

And in the most picturesque example to date of the multiplying links, China has paid DM 16m to buy up—literally lock, stock and barrel—the 65-year-old Zündapp motorcycle concern of Munich. Much of its plant and machinery is being shipped to China to help the development there of an indigenous, modern, motorcycle industry.

No surprise

All of which makes it small wonder that West Germany today is by far the largest European trading partner of Peking, and outstripped only by the U.S. and Japan.

In spite of the problems of the early 1980s, trade between them doubled between 1979 and 1984 to DM 5.4bn, and leapt by a further 74 per cent over the first eight months of 1985. But a glance at history is enough to show that this should be no surprise. As Foreign Minister Hans Dietrich Genscher pointed out, opening an extension to the German Embassy in Peking in October, some 50 German companies were involved with China back in the 1880s, mainly in Shanghai.

Since then there have been more downs than ups, but today 54 German companies are represented in Peking, while 15,000 Chinese will have visited West Germany in 1985 on economic missions of various kinds. It

is an imposing total, and testament to other major transactions in the offing.

Early next year, Peking is expected to make up its mind on whether to order two 1,000MW pressurised water reactors from Kraftwerk Union, as part of a deal worth up to DM 5bn. Competition from France and the U.S. is fierce. The Germans are probably favourites, but the outcome could hinge on the financing of the deal.

Peking is keen that Bonn steps up its imports of metals and other raw materials such as cotton, soyabbeans and other foodstuffs. In the past, too, the Chinese have been keen to offset part of the cost, at least by taking into permanent storage used fuel from German nuclear power stations beneath the Gobi desert.

But aerospace and electricals are fields at least as alluring for the Chinese as nuclear energy. A few weeks ago, Siemens (whose first export to China was in 1872) became the first foreign company to sign a long-term outline co-operation agreement with Peking, on top of the DM 700m of orders placed with the company in 1985 alone.

Meanwhile Messerschmitt-Bölkow-Blohm (MBB) has offered to develop and produce military and civil helicopters, as well as short-haul commuter aircraft in China. Collaboration could involve both the BO-105 civilian helicopter and its military counterpart, the anti-tank PAK-1.

In addition, Herr Franz Josef Strauss, the Bavarian Premier, who is MBB's most potent export salesman, has also floated the idea of China producing parts for the European Airbus, in which MBB is the main West German partner.

Other possible agreements, and others in the pipeline, point the way more over to the likely future shape of co-operation between Bonn and Peking. Instead of licensing agreements, joint ventures will be playing an ever more important part in trade between them, to give the Chinese closer access to Western capital, technology and export markets.

Even so there are still many snags. Peking, to Bonn's great liking, now provides investment protection guarantees, and a double currency arrangement which permits the transfer of profits out of China in hard currencies. But Chinese bureaucracy, in spite of recent streamlining, remains a major hurdle.

One complaint, for example, is that Peking provides too little detail of what it is looking for—a particular handicap for smaller companies formulating tenders to gain a foothold in the Chinese market.

But that fundamental goodwill will, there, can hardly be doubted. The Chinese appreciate German thoroughness and above all, German quality. Asked during the Kohl visit why a German company was being chosen for the new steel mill, Deng Xiaoping is said to have replied: "Because only German-built plant survived our last earthquakes intact."

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by A. Doak Barnett

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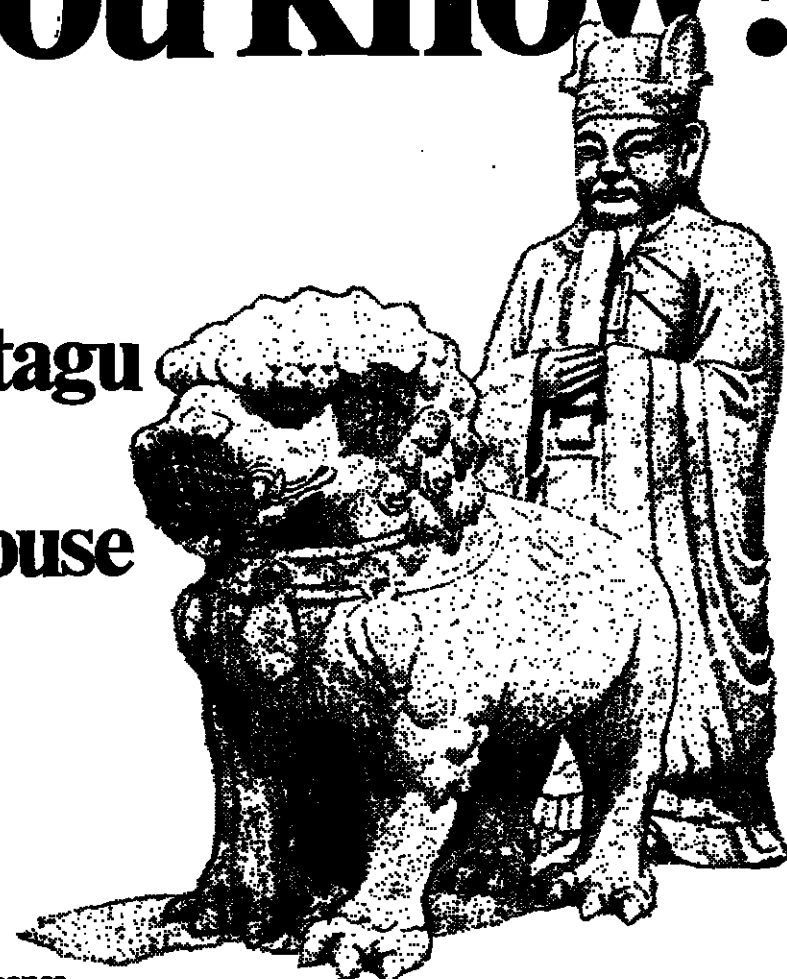
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China 10

Overseas businessmen often find negotiations complex and lengthy

Misconceptions abound on all sides

Negotiations with foreigners

STANLEY LUBMAN

CHINESE AND foreigners are sitting down at negotiating tables with increasing frequency, but their discussions are bound to be affected by different negotiating styles and complicated by mutual ignorance. The inevitable problems that may result range from minor to gross misunderstandings.

Each side is likely to have different notions of discipline. Chinese negotiating teams are required to maintain group discipline and adhere to previously

established positions. Expression of divergent individual opinions are rare, and in cases of doubt or difference within the group, members are supposed to defer to their chief. Foreigners are often more disorderly than their Chinese counterparts, and express individual opinions at the table, even to the extent of offering their views of the incompetence of some of their teammates.

Chinese negotiators are always supposed to distinguish between what is in the national interest and what is not, and to maintain their identity as Chinese working for the motherland. Group discipline meshes with national pride to hinder the formation of personal friendships across the table. Yet many foreigners seem to need to find quickly evidence of considerable, even

unusual, personal rapport.

High expectations of forming friendships, followed by disappointment when such expectations fail to be realised, may sometimes be fostered by the hospitality which is usually shown to visiting foreigners by their Chinese hosts. Lavish banquets may punctuate lengthy negotiations so frequently that after several weeks these dinners blur into one another, especially if there are hard drinkers of 120-proof mao-tai on both sides.

Some foreigners complain that their Chinese hosts try to take advantage of the warmth at the dinner table when they return to the negotiating table. Curiously, Americans seem to be more plied by this, perhaps because they may have higher expectations than Europeans about the results of feasting with their opposite numbers.

The banquets are often less the interruptions they seem, because it is not considered impolite to discuss business over dinner. When the China trade began to expand suddenly in 1978, the chief American negotiator in a major transaction, visiting China for the first time, expressed doubt about what he might discuss at a banquet with his counterpart, a stout lady. After she opened their pre-dinner conversation by asking, "when can you deliver?", the two got on famously.

Although friendships may not sprout easily, it is nonetheless true that Chinese like to gauge not only the foreigners' technical competence but their sincerity. Indeed, the latter may be linked to the former, and often blunt engineers from both sides, sharing a common discipline, contribute more to mutual understanding than commercial negotiators.

Ignorance

Mutual ignorance, as well as helplessness in the face of it, constantly beteg perceptions across the table. At its worst, foreign ignorance can be painful: at the first Guangzhou (Canton) fair to be attended by Americans in 1972, an American newcomer asked an English veteran of the fair how to tell from their then virtually identical mode of dress which members of a Chinese group had the highest rank.

The Englishman solemnly told the newcomer that the most important men wore white socks, provoking many peeks under the table. Although the China trade has

expanded beyond the expectations of any foreigners since then, the chasm of mutual ignorance extends, unseen but always present, across the table.

Foreign businessmen, for example, are continually perplexed by the complexity and verticality of the Chinese bureaucracy, most often evidenced by the reluctance of departments at the same level but under different superiors to communicate laterally to each other.

In recent years this has changed somewhat, but considerable decentralisation of authority (even if followed by frequent partial recentralisation) has continued the difficulty of communication within the Chinese bureaucracy.

Often more important than the Chinese organisations represented in a negotiating room may be those organisations which are not present. Foreigners often attribute to stubbornness the slowness with which Chinese may change their positions even in the face of the most convincing argumentation. Actually, the reason may be the need to wait for authorisation to shift a position, which cannot be changed by the negotiators themselves without consultation with others who they do not choose to identify.

Foreign confusion about these matters is often made more frustrating by the seeming inability and unwillingness of Chinese negotiators to discuss their own problems and organisational difficulties. Recently at one negotiation, a Chinese negotiator was heard to observe to his foreign counterpart that the Chinese negotiator was like the blind men who could not agree on the nature of the beast. The difference, the foreigner may think, is that unlike an elephant, China could speak—if it wanted to.

Although the foreigner may input malice to the uncommunicative Chinese with whom he may be locked in a lengthy negotiation, simpler explanations are more likely. Chinese negotiators often act as if it is proper for foreigners to be kept in ignorance about China because they must preserve discipline and safeguard state secrets—which can be almost anything as long as it has not been published in the newspapers.

Secrecy may be important for other reasons: some negotiators are openly willing to state that internal regulations and policy guidelines which foreigners are not supposed to know may mine the outcome of discussions

on a particular point.

These secrets will long hang over negotiations. Even as China constructs a legal system where none existed before, to a commitment to bring a new orderliness not only to foreign economic relations but to domestic Chinese society as well, many officials find it difficult to publish most of the rules by which their activities will be guided. The new laws and regulations remain general and leave many issues to be negotiated, and the blanks on the Chinese side are often supplied by regulations which may not be distributed to foreigners.

Perhaps more aggravating than the Chinese assumption that foreigners must take Chinese internal problems as they find them is frequent Chinese insistence that complexities of western companies and western societies are problems which the westerners, not the Chinese, must solve.

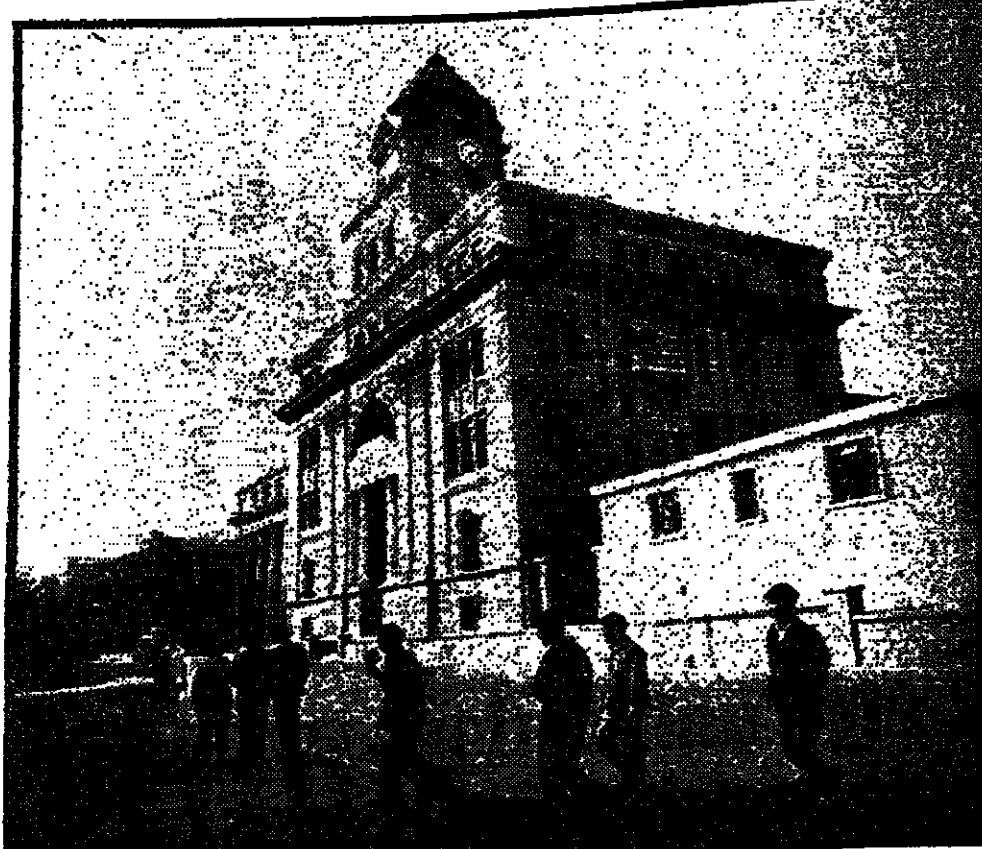
Barriers

Chinese negotiators have less opportunity to learn about foreign countries and ways of doing business than westerners, and the language barrier is always formidable. For these reasons it may not be surprising, although it is frustrating, when Chinese negotiators throw up their hands when legal or practical problems peculiar to the west are mentioned.

The net result, however, may be that Chinese complexities create problems for foreigners, while difficulties on the foreign side are also problems—for the foreigners. This may be more understandable when the observer reflects that most Chinese officials below the rank of vice-minister are not likely to feel that they have very much power to nudge their organisations in one direction or the other, but have no way of judging western organisations beyond finding them confusing.

Sometimes the two sides have identical misconceptions about the other, that despite the difficulties that may have arisen there is one person, a leader or someone even less identifiable who is not even present at the negotiations and who can, if properly invoked, exercise the power to settle perplexing problems.

This illusion—or is it a wish?—may be fostered by the Chinese habit of referring to an anonymous "leadership" or "higher level," even though they privately may not hold it in high regard.



The Bank of China, Peking. Foreign businessmen are often perplexed by the complexity of Chinese bureaucracy



Students listen to an outside lecture in the grounds of the Old Summer Palace in Peking

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Culture shocks at home and abroad

The student world

ROBERT THOMPSON

"By this tiny opening in the giant's stomach, I stared long."

What am I looking for? The thing I left behind? "SO WROTE a Chinese student, carrying more questions than answers in her luggage on her return to she-knew-not-what in China after several years studying in a Britain she found bleak but stimulating."

China's open door has increased the frequency of two-way traffic, with tourists and business people coming in, while an ever-increasing number of Chinese students are heading in the other direction—about 30,000 are on such tours of study.

Invariably, those students suffer culture shock when they settle in their destination, whether it be the US or West Germany or Australia, and they

also have culture shock on their return to China.

In one case a young Chinese who had studied in the US returned this year presuming that he could recreate the comfortable surrounds of his American university life and earn not much less than American wages in a city where the average yearly wage is just over \$250. He even took a dislike to Chinese rice, having developed a taste for the American variety.

And a mining engineer, chatting on a Peking-Shanghai train, lamented that the skills he acquired in his time overseas will never be properly used, as he has been assigned work far removed from his area of specialisation.

Another student said he had been very influenced by Western concepts of egalitarianism and humanism, but that it doesn't pay to broadcast such things: "To be first is always risky, if not dangerous."

He read the works of Milton Friedman, who has "got some truths," though he certainly does not agree with everything the author says. He took a deep interest in Western styles of

government, and found them very refreshing: "For a long time you are only told one thing, and then you are exposed to another point of view."

The Peking-based State Science and Technology Commission oversees about 3,000 students abroad, mainly in the US, Western Europe, Australia, Japan and Canada. Five of the commission's more successful past products were gathered to discuss the impact of their tour of duty abroad.

The five comprised a linguist, a microbiologist, neurologist, meteorologist, and a physicist, all now occupying senior posts. Two had studied in the US, two in Australia, and one in London.

Difficulties

Lie Peng, 41, studied microbiology at the Australian National University in Canberra from 1979 until mid-1983, and is now a researcher at the Peking Institute of Microbiology.

Since returning, he has found difficulty with a lack of confi-

dence in his research assistants, who are not trained to think creatively and are hesitant in "taking the next step" in experimentation. In China, he said, "the basics are not very good," and this hinders his ability to pass on knowledge gleaned overseas.

Wu Guoxing, 42, studied meteorology for four years in London from 1979, and decided that "the weather is terrible in Britain." He found that British authorities had a poor impression of the Chinese education system, an impression based on visits to China during the Cultural Revolution (1966-1976).

"I think we got a better understanding of Western society. We tried to understand why Western society developed so rapidly," he says, answering a question on the ways in which he and his fellow students were affected by the stay.

"A person asked me 'Could you explain why several centuries ago, China was the most powerful country in the world and why, now, China sends so many students abroad.' I think it's a question for a philosophy

student, not for a PhD student in meteorology."

On returning to China and Peking's Institute of Atmospheric Science, he found that the Cultural Revolution had put China 15 to 20 years behind the times in his field. "So far, we don't have a very good, advanced computer, and the equipment is still quite backward, so the conditions are not very good."

"We have a lot of expertise in our institute and I have tried to do my best," he says. But several problems hinder the institute's work, he explains, and he has too much administrative work and would like to concentrate more on research.

Reception

Yang Chaoguang studied applied linguistics at Sydney University from 1979-81, and is now working in the English Department of the University of International Business and Economics in Peking. Yang was "received warmly" in Australia, "made a lot of new friends," and tried to show Australians that China "is not

a backward country." "I am a middle-aged person and I have not changed much. When you go abroad, you tend to understand your own country," he says. Yang, who says he had few if any problems in Australia and on his return, is "grateful for the chance" to aid China's modernisation.

While studying neuro-immunology in New York and Washington, Xu Xianhao, 48, saved money to buy equipment that would enable him to carry on his experiments after coming back to China. He was impressed by the ability of American institutions to make snap administrative decisions, as in China "it takes a long, long time."

"I went there just to learn something about neuro-immunology. Almost every week, American friends would invite me out to dinner. They talked and I just listened," he says. "They say they have more freedom, that you can stand out from the front of the White House and say 'down with Ronald Reagan,' but you will never bring him down just by doing that."

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China 12

Shake-up at local levels

Challenges facing three cities

DAVID DODWELL

AS PART of Deng Xiaoping's attempt to oil the wheels of China's lumbering economy, a large number of new brooms have been sent out from Peking to take leading positions in provincial and municipal governments, and with instructions to sweep clean.

This new breed of mayor or party secretary is normally in his 50s, expects to retire at the age of 60, and is a technocrat—often university-trained as an engineer.

The odds are he suffered indignity and hardship during the turbulent years of the cultural revolution. He has been given the job of applying the more liberal economic policies being drawn up in Peking, and of cutting a swathe through the local bureaucracies that have proven so inept at introducing—or reluctant to act on—these policies.

Each province or municipality inevitably presents different problems, and as a result calls for different approaches by these new leaders.

Shanghai

IN SHANGHAI, the 58-year-old mayor, Jiang Zemin, has since summer headed China's most powerful industrial machine. Its people are sophisticated, self-assured and aloof.

At the same time the city bureaucracy is faction-ridden. Both industry and infrastructure have been starved of investment for over three decades. It is a city that is so important to the national economy that Peking insists on tight control.

Mayor Jiang is well aware that he is walking a tightrope. As China's former Minister of Electronics, he can feel confident of solid backing from Peking, but can never forget that many officials around him have equally strong pull in the capital. Unless he has their support or agreement, they can frustrate much of what he wants to do.

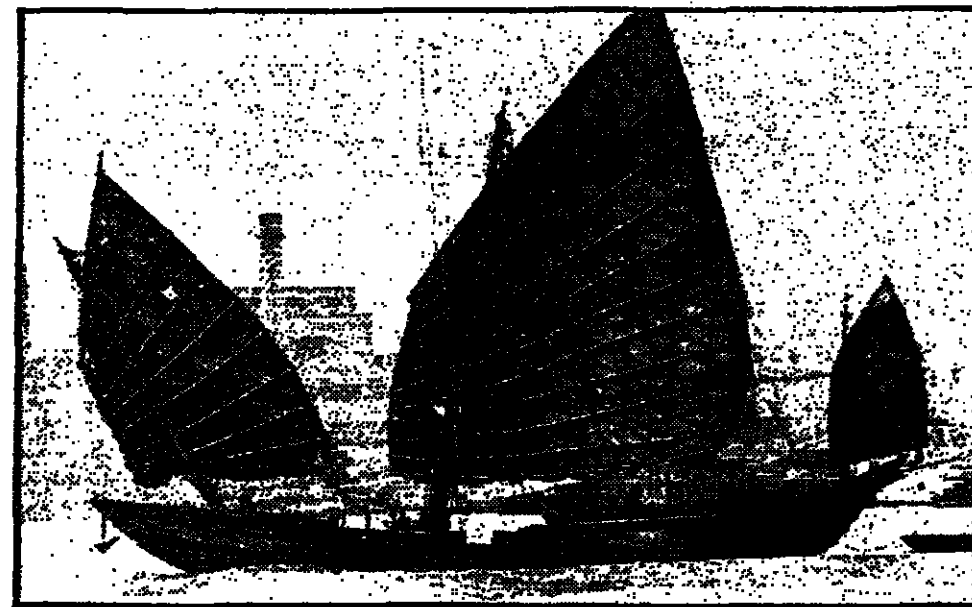
As if this were not problem enough, he is in the eyes of Shanghai people unquestionably Peking's man. Without a local constituency he is also unlikely to get far. As a result, he has gone to great lengths to present himself as local, and a man with a common touch. Local newspapers have portrayed him shovelling melon peel as part of a city clean-up campaign, supervising flood control operations after tropical typhoons in August, and chatting in Shanghai dialect with street vendors.

While he cannot claim to be from Shanghai, great play is being made of the fact that he was born in nearby Jiangsu Province, studied power engineering at Shanghai's Jiaotong University, and spent two periods of his working life in the city.

If Mayor Jiang manages to establish his local bona fides, then he may succeed where his predecessor, Wang Daohan, did not. The former mayor was much criticised during his term of office for failing to introduce economic reforms—unjustifiably, it now seems.

It has since become clear that his efforts were frustrated by powerful and conservative figures alongside him in the city administration. It was no accident that when he stepped down, a number of other senior party officials stepped down with him.

Jiang has therefore arrived in office with a new and like-



Sampans on the Yangtze River carry goods from Chongqing to Shanghai. Chongqing has expanded to become China's largest city, with nearly 14m people.

minded Party Secretary. Changes at the second and third tier of the city's bureaucracy are now occurring, but they are being kept well out of the limelight.

While change is what Mayor Jiang's job is all about, he is at pains to emphasise continuity. To admit otherwise would not only aggravate the resistance he expects to encounter from local bureaucrats and heads of the local state industries, but would also risk a loss of confidence in the former mayor that he inherits a greatly increased municipal budget. Wang Daohan's development plan will provide the blueprint that Mayor Jiang intends to follow.

Chongqing

IN CHONGQING, 55-year-old Mayor Xiao Yang faces a quite different set of challenges. This city of 14m people, set at the confluence of the Yangtze and Jialing rivers deep in China's interior in the east of Sichuan province, has suffered extreme neglect over the past 30 years.

From a brief and turbulent period of China's nationalist capital during the Sino-Japanese War, Chongqing has suffered almost permanent decline. Politically, it has been subordinate to Chengdu, the capital of Sichuan, since 1954—which means that many municipal proposals needing state approval have taken up to four years to be cleared.

As a "third tier" authority, Chongqing has found it correspondingly hard to get or keep bureaucrats of a high calibre. But from early 1983, the city has been given new powers, equivalent in economic matters to those of provinces.

After 30 years of isolation from the outside world, it can now conduct its own foreign economic relations. The city's leaders are cranking up to deal with the chronic problems of urban decay, poor communications, and an archaic industrial base—over 50 per cent of the city's industrial machinery was installed more than 20 years ago.

Mayor Xiao Yang has arrived breathing fire. Trained as an optical engineer at Qinghua University in Peking, and in Dresden and Jena in East Germany, he has paid a high political price for his outspoken and technocratic views, but has in the recent past been given a number of jobs linked closely with Deng Xiaoping's efforts to open up the economy.

He seems undaunted by the challenges facing him in Chongqing. He began with a city clean-up campaign, then called for changes aimed at boosting foreign trade, and shook up the city's mediocre and politically-divided bureaucracy. He abol-

ished about 70 departments, merged others, and promised that the process is far from finished.

He claims he has started on these "easier issues" before getting to grips with the city's more daunting problems. He has appointed Japanese advisers, and has given them executive power.

Such an ebullient approach would be inexcusable for Mayor Jiang in Shanghai. It is due in part to Xiao Yang's own temperament. For a man dubbed a "capitalist roadster" during the Cultural Revolution, who suffered one and a half years of imprisonment and regular public humiliation, he has little to fear from the Chongqing bureaucracy.

The ebullience is also possible because of the contrasting array of circumstances facing the new Mayor of Chongqing. Perhaps most important is Xiao Yang's sense of certainty about the strength of his backing from Peking. Few other local officials have clout in the Chinese capital. Most have been cut off from Peking for so long that they would live in awe of a man of Xiao Yang's standing.

Chongqing has a large arms industry—with 20 per cent of its 1m industrial labour force employed by Peking-controlled defence corporations—but these industry bosses are unlikely to have sufficient leverage in Peking to frustrate Xiao Yang.

It is only because the central government is in the process of shaking up the arms manufacturers, pressing them into more civilian production.

The new mayor can therefore tackle problems with greater confidence than Mayor Jiang in Shanghai that no-one with influence in Peking can pull the mat from under his feet.

Xiao Yang is similarly well placed in terms of local politics. While he is not a Chongqing man, he comes from a small town on the Sichuan-Shaanxi border just north of the city, and was active in Chongqing in the famous East Sichuan Underground Movement in the final years before the overthrow of the Guomindang government in 1949.

While Xiao Yang has been more outspoken, the odds on him succeeding are if anything less than those on Mayor Jiang in Shanghai. Contrast Shanghai's skilled workforce, comprehensive foreign trade links, easy communications, both overseas and into China's interior, and powerful leverage in Peking, with Chongqing's remoteness, bureaucratic mediocrity and ignorance of overseas markets, and it is clear he has a steep uphill struggle.

"If I succeed, the Communist Party will get the credit. If I fail it will be me that gets the blame," he comments with characteristic bluntness and not a hint of self-pity.

Shenzhen

IN SHENZHEN, China's leading special economic zone next door to Hong Kong in southern China, 55-year-old Li Hao has recently been appointed the city's new mayor after a number of years of "concentrating on economic research" in the Ministry of Commerce and the State Planning Commission in Peking.

He arrives at a time of unprecedented criticism of the special economic zones in general, and of Shenzhen in particular. High-level officials in Peking and elsewhere have argued recently that the Special Economic Zones (SEZ) policy has backfired, with resources being focused on tourism, commerce and construction rather than on manufacturing. They have complained that the manufacturing activity that exists is by-and-large using low technology, and is for the domestic market, rather than export.

Mayor Li's job is almost certainly to ensure that the "experiment" of setting up the SEZs is not allowed to fail, and to protect it from assaults from still-powerful conservative economic planners in Peking. One of his earliest acts has been to help local officials mount a spirited defence of the zone's achievements.

He is without a university degree — "I left university before graduation to engage in revolutionary work," he comments.

Like his counterparts in Shanghai and Chongqing he was born nearby his new job. He is reticent about his past, however, insisting that it is usual for party officials to talk about themselves. Unlike Xiao Yang or Jiang Zemin, the force of his own personality is not such a critical element in his success or failure.

He argues that his job will be to build on the foundations laid by his predecessors, and being applied by a strong and unchanged team of second-tier cadres who, unlike in Shanghai or Chongqing, are comparatively highly trained and well-motivated bureaucrats.

Shenzhen is relatively free of the Byzantine bureaucratic politics of other cities, and is unencumbered by inefficient state industries. In a city that was virtually a greenfield site six years ago, he inherits none of the normal problems of decay, infrastructural collapse, or antiquated industrial machinery.

All three men are firmly committed to Deng Xiaoping's vision of a stronger and economically lively China. But with their different styles and objectives, they illustrate well both the diversity of the problems facing China's economic planners, and the flexible approach to economic reform that may be one of the greatest strengths of Deng's policies.

SURPRISES FOR OVERSEAS VISITORS AT THE JINLING HOTEL IN NANJING

Meeting place of East and West

THE BIGGEST attraction for those who live in and visit Nanjing has nothing to do with the city's vivid history. It is not the mausoleum to Dr Sun Yat-sen, or the lake on which past Emperors and warlords trained their armies, or the little is left of the Taiping rebellion of the 1850s and 1860s, or the gorgeous succession of classic buildings, now the home of the provincial government, which once served as headquarters for Chiang Kai-shek.

It is a 36-storey white finger out of fatness called the Jinling Hotel. On any given day there will be a small crowd of a few dozen locals and country cousins blatantly gawking at something beyond their ken. If they stepped inside, as some now do, mostly on official business, their eyes and ears would widen more.

They could take in a very passable string quartet on the mezzanine balcony, from a local music unit, an actual built-in piano bar and the piece de resistance on the revolving 38th floor, Jimmy King and his MoHo-Hawaiians. This is an extraordinary band of now age-

ing Chinese that was once the rage of old Shanghai in pre-liberation days and which now, regrouped from the culture wilderness, sometimes uncertainly but with undiminished enthusiasm, bangs out approximate renditions of what Glenn Miller and Company served up with precision. The brave and the affluent, can even shake a leg on the hottest dance floor Nanjing can offer.

To be fair, the Jinling Hotel is exceptional for non-syncretic reasons. Now open for just over two years, it was one of the first batch of six hotels approved in 1979 by the central government for foreign capital participation and the only one in a non-gateway city. In fact, unlike the other five, Jinling is actually owned by the provincial government, though assisted by loans for overseas Chinese.

It godfather is S. P. Tao, the Singapore-based magnate (Singapore Land and Ocean Shipping), who was born in Nanjing and whose first local career was as a distinctly modest cobbler.

It was Mr Tao who, responding to the "open-door" policy's call on overseas Chinese to re-invest in the mainland, deter-

mined that his old home town should be the recipient of a grand new hotel (and who, according to another old Nanjing expatriate found sampling Jimmy King's music, donated from his own pocket the revolving top floor).

Mr Tao put together the Singapore and Hong Kong financing for the \$40m loan raised by Jiangsu province from the Bank of China (supplemented by additional loans).

Consultants

According to Mr Zhang Kinseng, whose modest title of deputy hotel manager disguises a formidable string of entrepreneurial activities, the establishment is exceptional on many counts. Though Chinese-owned, it is run by a team of extensive foreign consultants on everything from uniforms, through the kitchen to interior decoration.

It despatched key staff outside China for training and now runs its own in-house training programme. Mr Tao's purpose, Mr Zhang says, was to introduce the Western way of managing a product to China and to use it as an instructive showcase.

Mr Zhang believes it is working. The Jinling he says, needs 50 per cent occupancy to break even and is now profitable "on an annual basis," if not every day.

Its clientele is almost exclusively foreign (about 20 per cent overseas Chinese) relieved by a small trickle of Chinese dignitaries. But its selling point was that, when it opened, its 700-plus rooms immediately doubled the capacity of high-quality hotel rooms in the city of Nanjing.

Now, with Jiangsu's growing economic importance and with neighbouring Shanghai's supply of good hotels declining, Mr Zhang predicts that Nanjing will become more of a gateway city to the Jinling's benefit.

Intent on promoting business and tourist trade, Nanjing has circumvented prescriptions on scheduled air services by negotiating quasi-regular charters from Hong Kong, Japan and even West Germany. Next year's Jinling revenues could double, Mr Zhang forecasts; Jimmy King had better keep revolving too.

JUREK MARTIN



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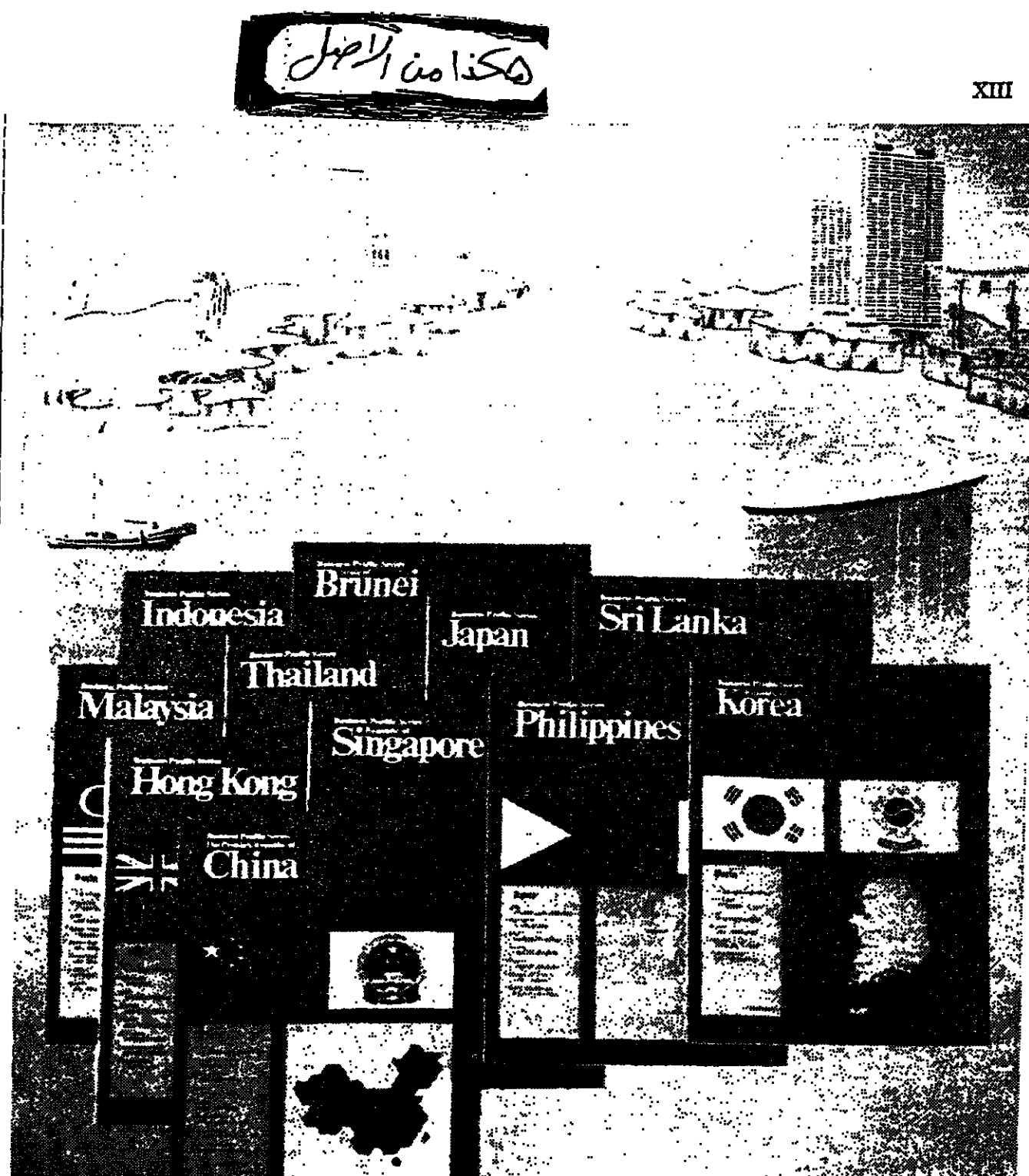
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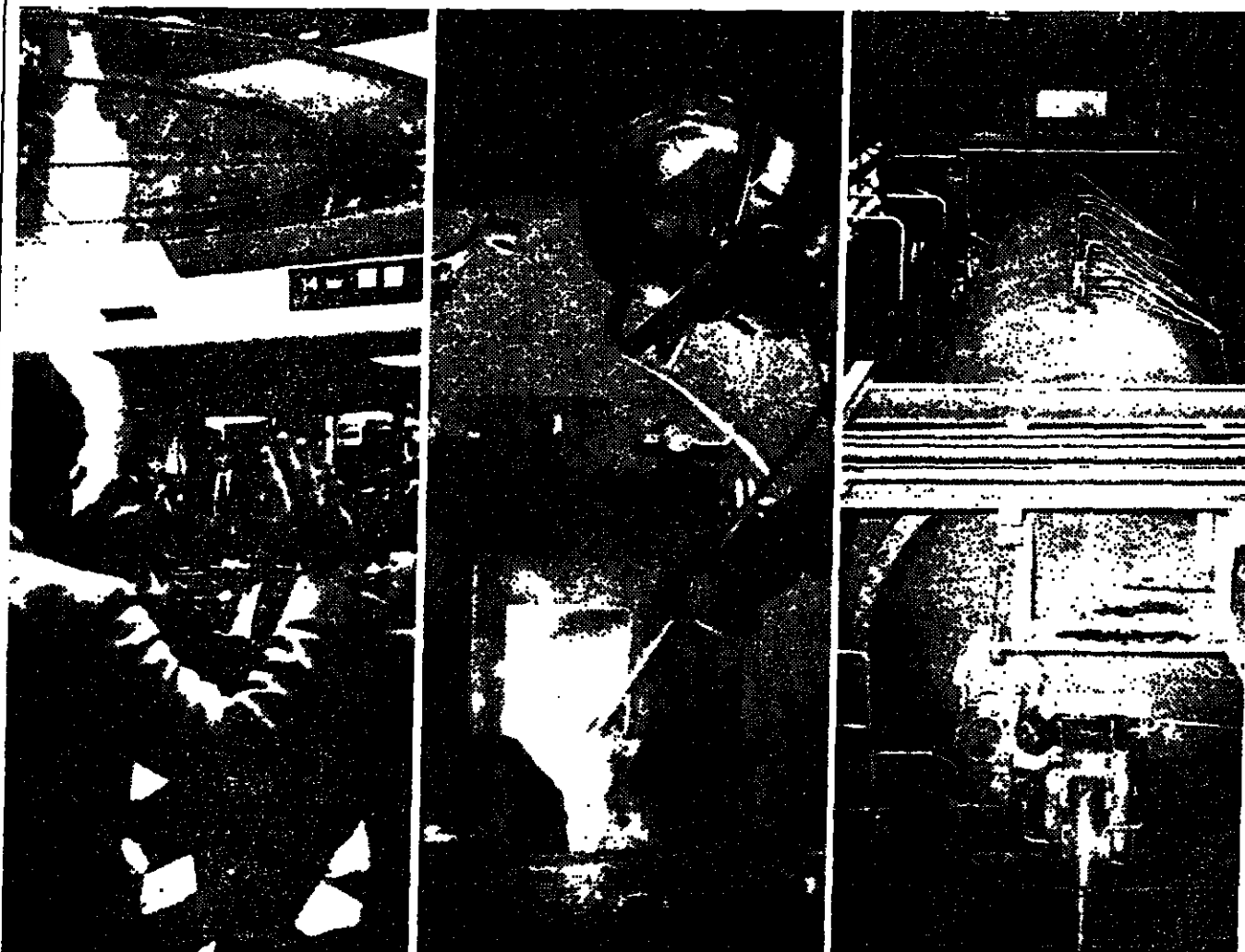
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Imports fail to close the technology gap

Foreign trade and investment

JUREK MARTIN

MR XIE MING-GAN, of the State Economic Commission, has no problem in identifying the biggest headache for China's economic planners. It is, he says, "the loopholes in our economic infrastructure." Unless they are improved, "our economy has no way out."

In no sector is this more evident than in China's trade and investment policies. It is hard, both for China and for its foreign partners, to accept that China, for all its illustrious history, is very much a developing country by today's economic yardsticks.

It is not, as some foreign traders first thought, yet a potentially lucrative market of over 1bn consumers; it is not a country with a technological capacity capable of sweeping all before it awaiting only the import of a few cogs and parts; rather its ability to buy, in imports and foreign investments, is constrained by its ability to pay and for that it

needs to generate hard currency income through both conventional products in which it is already strong (agricultural goods, raw materials and textiles) and through those manufactured products in which, because of the lack of expertise, it cannot yet compete internationally.

Yet, as officials throughout the country freely concede, the record of the foreign connection as the economy has gathered pace in the last two years is that China has been importing too many of the wrong things (consumer goods for internal consumption) and too little of foreign production technology for comfort. The fault lies partly with China itself—the infrastructural problems to which Mr Xie referred—and partly with its foreign suppliers, who have, China believes, concentrated more on the quick returns than the long term investment.

Japan has, as examined elsewhere in this survey, sought most actively to capitalise on China's "open-door" policies, to the extent of a surplus of over \$4bn in bilateral trade in the first three quarters of this year. But Japan is far from being the only "offender."

China's general imports in the first nine months of this year, according to the Ministry of Foreign Economic Relations and Trade (Mofert) were two-thirds up on the same period in 1984—a period in which foreign exchange reserves dropped by about 40 per cent. New, it still fledgling suppliers to China from other parts of Asia (including South Korea) also see China as principally a market for their manufactured goods, though the figures still show a predominance of raw materials and semi-finished imports from the region.

Classic problem

On the export side, China is confronted with classic protectionist problems in its potentially biggest markets. It already accounts for over five per cent of the global trade in quality textiles (and a higher share of lower grade products), yet finds both the US (exemplified by the Jenkins Bill) and Japan reluctant to buy what they might. The lower international price of oil and other primary commodities are also reducing China's external earning propensity.

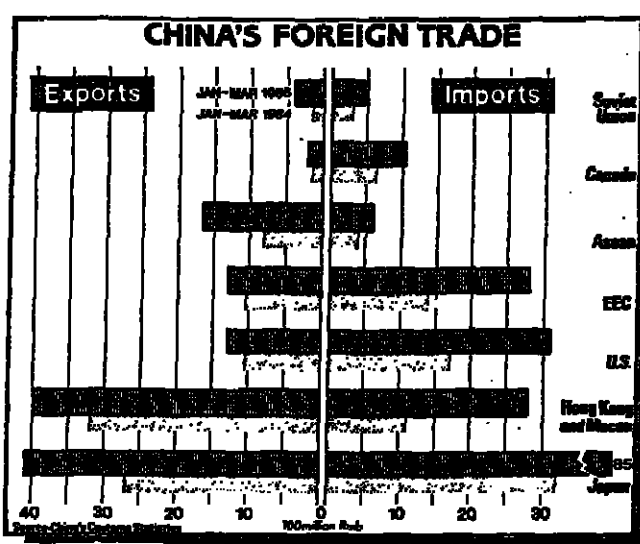
Nominally, foreign invest-

ment in China is on a sharply upwards curve—from 183 projects officially logged in 1983 to 931 in 1984. But many, especially those by overseas Chinese (780 of the 1984 total) are extremely small and concentrated, Chinese officials believe, in the wrong sectors.

Some of the larger investments have, naturally, been in hotels and tourism in which the Chinese infrastructure is indeed deficient. But Mr Xie is far from alone in arguing that China now has enough "five-star hotels," which, in any case, do not bring in substantial sums of foreign exchange.

It is the technological content of foreign investment which is of perhaps even greater concern. A country which once made wondrous things cannot now compete not merely with Japan but with other Asian countries. The manager of the Nanjing Radio factory freely concedes that his Panasonic (of Japan) assembly line is light years ahead of the Panda (Chinese) one on the floor below.

China has two specific complaints about the lack of technology transfer—that Japan simply will not provide it and



that the US is too intent on invoking the rules of Cocoon (the Co-ordinating Committee on East-West Trade) to limit technology exports to any Communist country.

Curiously, China's old enemy, the Soviet Union and its allies, may be well placed to meet its needs. Mofert concedes that in general terms (and notably in power production) the modest level of Soviet technology suits China. It also probably helps that China does not have to pay for Eastern European supplies in hard currency.

The World Bank report on China argues that a major expansion of gross national products cannot be attained without a substantial increase in the service sector, again an area in which China is deficient and where foreign expertise could—and to a limited degree has already—contributed. Chinese officials do not disagree with the diagnosis, but see implementation of many aspects of a service sector years off; finance and banking is one such.

Yet, with an increasingly omnidirectional foreign policy, the Chinese problem is less that of picking logical and desirable trading partners than of determining what to buy and invest in and what to sell.

This, in turn, comes back to Mr Xie's observations on the country's infrastructural deficiencies; the national experiment in administrative devolution (giving provinces and other local authorities much greater autonomy in trade and investment) has proved a mixed blessing, at least in the eyes of the central government. However, well some areas have done, there have been clear cases of duplicate imports (too many televisions and refrigerators), of foreign investment projects with minimal export potential,

and of general administrative inexperience—hardly surprising in a nation which for two generations has known only central control.

Even the Central Government is learning new rules on the job, as it were. Regulations governing the 22 "open" zones, cities and regions where foreign trade and investment is actively sought have been frequently changed. Deng Xiaoping himself has questioned whether or not the showpiece zone, Shenzhen in Guangdong province, is working well enough.

And, perhaps above all, the Government is now very cautious about the foreign exchange factor: this is not surprising: \$10bn - plus in reserves is what China this year looked like accumulating as a foreign trade deficit - though the final figures will almost certainly show something approximating "balance." Foreign exchange has become, if not a scarce, then at least a premium commodity in China, as any foreign businessman will attest. It is likely to remain so.

SINO-SWED JOINT VENTURE

High hopes for new drug plant

ON AN ISLAND in a lake a few miles from Wuxi, in Jiangsu province, among typical canal-and-paddy-field scenery of the Yangtze delta, a surprisingly Scandinavian silhouette recently appeared. An elegant silver factory building will house the new Sino-Swedish Pharmaceutical Company, a joint venture between a group of Swedish pharmaceutical producers and three Chinese investors.

Getting the project under way has been relatively speedy. First contacts between the two sides were made in 1979; a feasibility study for the project was carried out in 1980-81; and a contract to build the plant was signed in 1982. Ground and the plant should be finished in August next year.

On the Swedish side, the pharmaceutical companies joined with a government organisation, Sverigefarm, and contributed \$6m of the \$12m capital. The Chinese investors, the state, the provincial and the local Wuxi township pharmaceutical administration, paid in \$5m worth of investment in land and building, plus \$1m in cash.

Mr Goran Skanberg from Sweden, currently on site and overseeing the construction, is president of the company, and Li Xin from the Chinese side vice-president. Three positions are earmarked for the Swedish side, chairman and two chief engineers.

Most of the equipment will be Swedish, but the Chinese are contributing some basic installations. The main products will be a cardiovascular drug, Astra, and a substance used in drips, Kabi-trum.

"The Chinese authorities would like to see SSFC being really successful," says Mr Skanberg. "We ourselves are looking to the long term, and we feel with our proximity here to Wuxi's 800,000 people, we are in a good place."

"We strengthen our staff here from time to time with personnel from the Swedish consortium. For instance, we've got a marketing adviser here who is working with Mr Li. We may need other advisers as the project develops in 1986."

A project group is working on the construction, and the project manager is Swedish. Three Swedish experts are helping with the piping, building and installation, but their jobs are only short-term.

There are seven Chinese staff in the construction office, who control the work done by the main contractor (the Wuxi Construction Company), plus people working temporarily in the construction office, a total of 30 to 40, Mr Skanberg says.

There have been delays. The original start-up date was April next year, and costs have risen slightly because of initial under-estimation, world inflation and the falling Chinese yuan.

"The production equipment is all shipped in— from the US, West Germany, Switzerland, Italy. We are considering some Chinese purchases, and we are certainly using Chinese equipment for the utilities—the boiler house, guvride and water treatment."

Turnover

"There have been no problems owned by the locality," Mr Skanberg says, and coal for fuel is shipped in at the quay being built as part of the project. Anti-pollution equipment is to be installed.

"At present, we calculate about 30 per cent of our turnover will come from exports in our first three operating years. That should be possible as we also plan to make generic drugs. We are discussing the sale of these with foreign buyers at the moment."

The aim is to obtain approval of the plant by the US Federal Drug Administration. "We will also have some products to export to the Swedish consortium members for distribution."

Several two-storey houses are being built adjoining the site for the foreign staff, for which the rent will be yuan 50,000 a month. Even the 30 or so Chinese staff have been brought in from other parts of China. "It is important to get the right quality," says Vice-President Li.

COLINA McDUGALL

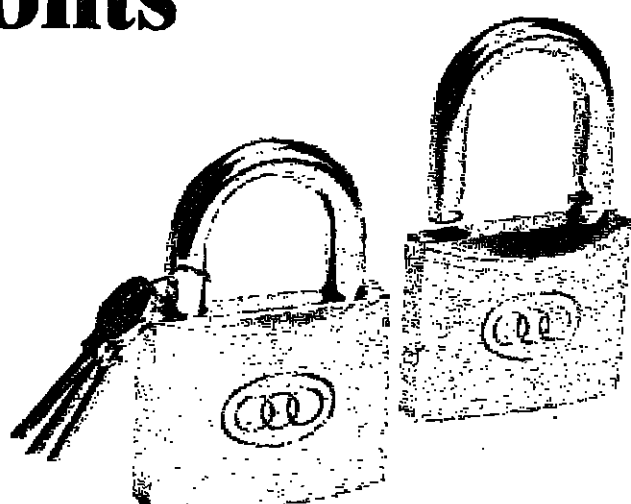


A woman operative at the Guanzhou (Canton) heavy machinery plant. Industrial planners in China seek far more technology transfer from overseas companies.

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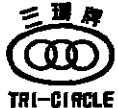
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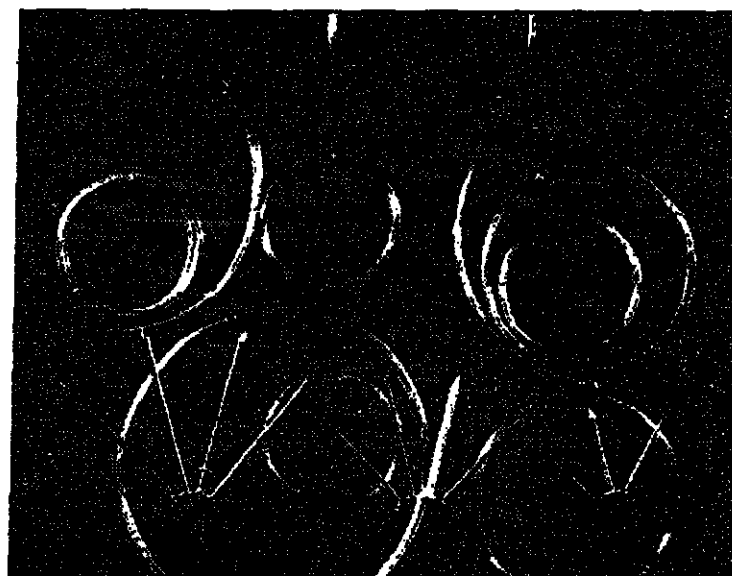
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Workers in Peking (left) cycle through Tiananmen Square, not far from the Great Hall of the People where members of the Chinese Communist Party (right) raise their hands as they cast their votes for new members of China's Communist Party Central Committee

Critics answered with lively defence

Shenzhen: Special Economic Zone

DAVID DODWELL

LEADERS in Shenzhen, the fast-growing Special Economic Zone (SEZ) on China's mainland border with Hong Kong, are not people to take criticism lying down.

Instead of cowering when China's official media, with the blessing of a number of senior state officials, recently claimed that development in the country's four Special Economic Zones had gone awry — prompting paramount leader Deng Xiaoping to say they were no more than "an experiment" — they launched a spirited defence of what they had achieved.

Instead of bawling down the hatches and waiting for criticism to die down, they set about an unprecedented propaganda campaign. Between mid-October and the end of the year, they have invited about 200 officials from ministries in Peking and provincial governments to visit the zone to see for themselves.

These include Zhang Gensheng, deputy director of the Economic Research Centre in Peking, and Wang Zuo, the outspoken director of Guangdong's Provincial Structural Reform Office.

Late in December, Gu Mu,

the state councillor with a wide range of economic responsibilities, will visit the zone "to summarise what has been achieved so far, and to give advice on laying out strategy for the future."

"Through study and investigation we can reach a unanimous understanding about the situation here," said Lu Zufa, deputy secretary general of the zone, with not the slightest hint of doubt that they could not be persuaded to see things his way.

Critics have argued that the country's four Special Economic Zones in Zhuhai, Shenzhen, Shantou and Xianou — of which Shenzhen is by far the biggest and in many respects the national model — have flourished on tourism, retailing and construction rather than on build-up high-technology manufacturing industry as the central government intended.

They have complained that most of the manufacturing activity has been for the domestic market rather than for export where it would earn urgently needed foreign exchange.

Scandal

In the wake of the Hainan Island scandal, in which cars worth perhaps US\$200m were illicitly imported with the connivance nationwide of cadres and army officers at senior levels, the finger has been pointed at the zones as "havens of corruption" and other commercial crime. Black marketeering in currency has been investigated particularly carefully.

Deng Xiaoping's comment that the zones were no more than an experiment, from which lessons could be learnt if they failed, sent shivers through the foreign investing community, which saw a hint that China's open door policies were under threat.

Widely publicised speeches by powerful economic figures such as Chen Yun, which attacked China's timid flirtation with a market economy and called for more central planning, added to fears that Deng's liberalising policies were under assault from conservative groups in Peking.

In Shenzhen itself, there are few official signs of self-doubt. In six years, it has grown from a tiny fishing hamlet to a skyscrapered city of 300,000 where the ubiquitous Chinese cyclist is heavily outnumbered by imported cars and trucks. It may look dusty and shabby to a visitor arriving from nearby Hong Kong, but enter it from the other direction, by road from Canton, and it is the very epitome of ginkgo modernity.

"It's true we don't have much sophisticated or advanced industry," admits Lu Zufa, "but we think the achievements made so far are considerable, and have not been easy."

"I accept that trade, tourism and commerce have been the areas of fastest growth — but these paved the way for industry. It's also true that during our early development, most industries have been technologically simple, small scale and backward — but they are providing the foundation for development of more sophisticated industries."

Officials are literally bristling with statistics to support their claims. The gross value of the city's industrial output has soared from RMB Yuan 60m in 1979 to Yuan 1.8bn last year, and an expected Yuan 2.4bn this year.

In 1984, almost 38 per cent of the city's production was accounted for by construction, and a further 16.4 per cent by commerce and tourism, but manufacturing accounted for a substantial 33.6 per cent — more than most would have guessed in the light of recent criticisms.

Exports account for about 34 per cent of industrial output — well short of the 60 per cent long-term target, but in Lu Zufa's eyes, no mean feat in such a short space of time. In any case, China's powerful consumer boom, coupled with the fact that goods sold on the domestic market are generally priced higher than those for export, have given scant incentive to manufacturers nation-

wide to give high priority to exporting.

About 80 per cent of the \$800m non-oil foreign investment has come from Hong Kong, linked with consumer electronics and textiles. Neither of these industries has been buoyant in the past year, so efforts to boost export earnings have been frustrated.

Shenzhen officials also insist that it is premature to expect high-technology investments. Despite the heavy investment in infrastructure, industry remains starved of electricity — and can expect no improvement until state and provincial governments decide to commission more power plants.

Most important, there is no local pool of highly-skilled workers to draw upon — as there would be in Shanghai or Tianjin. A high-technology

corporation recruiting staff in Shenzhen starts with peasant farmers. Even the armies of construction workers have had to be imported from China's interior.

Other moves are not those of a government with its tail between its legs. The recent freeze on use of foreign exchange has hurt Shenzhen as it has hurt elsewhere in China, but other changes are taking place that have attracted considerable comment and interest.

Four foreign banks have been allowed to open full branches in the zone — the first to open since 1949.

Proposals have been put to Peking for a separate Shenzhen currency that would be internationally convertible. An investigation is in progress on setting up an independent commission to investigate corruption among officials.

Some foreign businessmen have been frustrated in recent weeks over a reluctance to take initiatives on ventures under negotiation. But in view of the squeeze on foreign exchange, and the "exchange of views" occurring between now and Gu Mu's visit in a month's time, the reluctance ought to come as no surprise.

"The economic development occurring here is natural," says Li Hao, the city's newly-appointed mayor, "no-one is trying to manipulate it. The main task of leaders is to follow changes in a practical and natural way."

Deng Xiaoping may have been forced to acknowledge that his special economic zones are an experiment, but if his "laboratory technicians" heading the zone are an accurate guide of his present mood, then he is far from admitting the possibility of failure.

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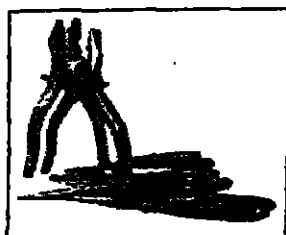
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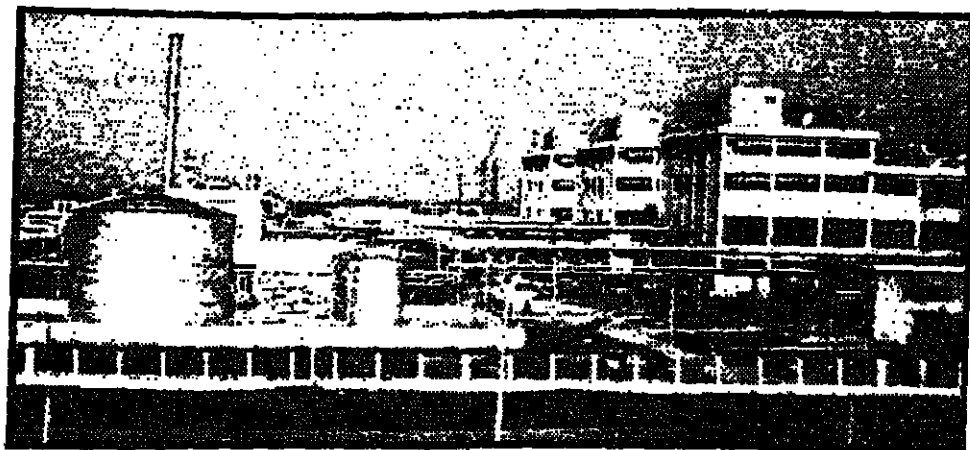
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China 16

Prosperity follows surge of enterprise



Davy McKee's Frankfurt-based subsidiary Zimmer has just commissioned this polyester polycondensation plant in Nanking, Jiangsu Province, producing the raw material for fibre production. Zimmer is also building 12 spinning mills in China.

One of China's most impoverished areas

NEXT TIME you go to a Chinese banquet and down a glass of the fiery spirit Maotai, used for toasts throughout the Chinese world, spare a thought for the people that produce it.

In the village of Maotai, a remote corner of Guizhou province, itself tucked away in China's southwest, peasant distilleries continue their work bringing a trickle of money into what is one of China's most impoverished areas.

No greater contrast to the lush paddy lands of the east could be imagined than the limestone mountains of Guizhou. A few valley floors afford a modest space for cultivation, but by and large the inhabitants literally scratch a living from tiny patches of a few feet square on precipitous and boulder-strewn hillsides.

Little has been done over the past three decades to improve their lot. Large and inefficient industries have been set up in the provincial capital, Guiyang, but as the population has doubled to 2.9m since the early 1950s, any increase in output has been swallowed up by rising numbers.

Guizhou has always been shockingly poor. Originally inhabited by primitive tribes like the Miao and the Buyi, Han Chinese came to settle as pressure on land increased in adjoining more fertile provinces.

This trend continued in the 1950s and 1960s as Chinese communist policy focussed on bringing the far-flung western areas more into Peking's orbit.

Profile: Guizhou Province

COLINA MacDOUGALL

and whole factories were removed from Shanghai to Guiyang. They remain important projects, but it is a moot point how far they have raised local technical standards or directly benefited the local economy.

Guizhou had a bad Cultural Revolution whose effects linger still. A giant statue of Chairman Mao points imperiously across what was a huge rally ground, though it has now been incorporated into a new town plan criss-crossed with highways and gardens.

Deng Xiaoping's reform policies have brought improvements in that food appears more plentiful, though provincial leaders admitted that some 20 per cent of the population still go short. Grain is brought in from other provinces to feed the cities, and the development of sideline activities means more eggs, meat and vegetables.

Guizhou's real riches lie buried in the mountains. It has key reserves of mercury, phosphorus, bauxite, coal, antimony, titanium and manganese. The problem lies in getting them out, for though railways have been built since 1949, these resources remain inaccessible.

Provincial planners are hoping to improve links to the rest of China with an airline to be run jointly with Sichuan province next door. They have already bought four Boeing 737s.

To solve the minerals transport problem, they have signed letters of intent to buy an airship from Airship Industries of London, though it remains to be seen whether the climate (which generates continued cloud), and technical levels in the province, are suitable.

The province's one asset is its hydropower potential. A planned development of huge dams and power stations along the Hongshui River partly crosses Guizhou. Already, provincial officials claim the province has a 1bn Kw surplus of power which it sells to Sichuan and Guangxi, though this year lack of rainfall has reduced water levels to the point where even Guizhou has had to economise.

Today, Peking is well aware of the difficulties in its poorer regions. These may contain fewer people than the richer ones in the east, but the numbers still run into many millions.

A trusting new party secretary, Hu Jintao, at 42, China's youngest and believed to be one of top leader Hu Yaobang's proteges, was appointed in September and has since spent his time energetically touring the province. He will have his work cut out to dent the problems.

"IN HEAVEN there is paradise, on earth we have Hangzhou and Suzhou," runs the old Chinese saying.

While it must be conceded that Hangzhou is in the adjoining province of Zhejiang, the ancient canal city of Suzhou indeed lies in the fertile delta country of Jiangsu. This "land of rice and fish," as the Chinese call it, with its neat well-built villages, is the most densely populated and productive in China.

With nearly 62m people, 600 to every sq km, the story could have been very different. But the people have brought it, at an expected Yuan 500 in the countryside and Yuan 800-1,000 in the towns, the highest income per head this year of anywhere in China. Most of the rural rise comes from the post-1980 explosion of specialised farming activities and small business enterprises.

"The Yangtze valley has been the centre of Chinese civilisation" since the Tang dynasty," said Vice-Governor Chen Huanou. Peking might dispute his view, but there is no doubt that the great cities of central China have been a powerhouse in its economic development. It would be

inaccurate to call them rich, but they have a sense of bustle and commerce quite different from the bureaucratic austerity of Peking.

Nanking, today the provincial capital of Jiangsu, has played a leading role in history. It was the capital of the southern Song dynasty of the Taiping rebels just over a hundred years ago, and of Chiang Kaishek's Nationalist regime in the 1930s. It stands near the confluence of the great east-west artery of the Yangtze River and the ancient north-south Grand Canal.

While its airport does not have international status, its other communication and the business centre in the new 36-storey Jialing Hotel make it an attractive rendezvous for foreign traders seeking Chinese partners.

Jiangsu forms part of the vital history of the metropolis of Shanghai. Foreign influences reached it early. During the Opium War, in 1841, a British fleet sailed northwards from Hong Kong and up the Yangtze, seeking Chinese ports as it went. The consequence was the Treaty of Nanking, under which among other things the city of Shanghai was opened to British trade.

Jiangsu Province

COLINA MacDOUGALL

and the opening of Shanghai to foreign trade.

Shanghai grew fast and Jiangsu benefited, marketing its growing produce in the city and getting back foreign investment and technology. "So much of our textile machinery is British," said Mrs Ma, head of Wuxi towns Foreign Trade Bureau. "Can you ask British textile companies to help us update it?"

It is this legacy of openness to the outside world which has today pushed Jiangsu to the forefront of Chinese provinces. It has few raw materials. With its huge population, it is dependent on their resources to better their lives.

"Four-fifths of our industry is in processing," said Vice-Governor Chen Huanou, speaking in the vermilion hall that was once part of the Taiping emperor's palace. "Our agriculture — rice, wheat, cotton, fresh water products — is the richest in the country. Our industry is over 95 per

cent in small and medium sized factories, and nearly half of it is owned not by the state but by collectives. We need new technology to develop these, especially technology that will reduce power consumption."

Like much of eastern China, Jiangsu is energy-starved. The province is actively discussing the supply of an 1800 MW West German Kraftwerk Union and unspecified French companies. But Peking's vice minister for the Nuclear Industry Chen Zhaobo declared it was uncertain whether it would be included in the next five year plan, due to start in 1986.

However, the province is expecting four conventional power stations to be built with funds from Peking, one at least to come from Japan. Other major projects slated for the plan period are a 500,000 V transmission network, upgrading Lianyungang port, improvement on the Grand Canal and key chemical, rail and cement installations.

Jiangsu currently has 51 joint and co-operative ventures with foreign companies, mostly from Hong Kong, Japan, West Germany and the US. Worth a total of \$156m, some 30 per cent of these are with

Hong Kong. The biggest is a beer and soft drinks plant from Japan's Suntory, at Suzhou. Another 50 or so are under discussion in fields like textiles, electronics, chemicals, coal, electronics and tourism. The province is looking for more partners in these and similar fields.

Miss Wu Huiping of the province's trade and investment bureau, reluctantly confessed to one case of jobless workers at a part-Japanese plant, but did not admit to other problems such as power or water shortages.

This year the province's trade has hit shoals. "The outlook's not good for exports," says Sun Shunqing, deputy director of provincial foreign economic relations and trade. "Forty per cent of our exports are textiles. Last year our sales reached \$1.4bn. This year we estimate just a small rise to \$1.5bn."

"Imports may be restricted as under the new policy we must avoid consumer goods and duplication of equipment already been set up elsewhere," he adds. But while there may be a slowdown for some months, no-one in Jiangsu expects China's present economic and foreign exchange problems to alter the long term pattern of beneficial development.

Success comes to 'Little Shanghai'

Township profile

JUREK MARTIN

them music of The Isle of Capri.

Dichotomies apart, Wuxi is doing many of the things right, especially by the standards of Deng's modern China.

It has for 3,000 years enjoyed prominence, as one of the nation's great rice markets, as a home of a great expertise in silk-making, and because of the scenic beauty of the Grand Canal and Lake Tai.

Today it is the most productive region of the most productive province (Jiangsu) in China. That does not make Wuxi the most productive city but puts it in the big league.

"Little Shanghai" as the deputy mayor, Mr Li Zufa, remembers the city's old name is intent on emulating its former mentor.

Wuxi officials like Li, explain its success as a knack for implementing national directives. They point to the change in national policy in 1978, parti-

cularly in the impetus to diversify economic bases and to promote exports.

Although Wuxi's biggest industry remains cotton textiles, it is nowadays followed closely by mechanical machinery, with electronics now the fastest growing individual sector.

Before 1949, Wuxi only exported silk and cotton; now more than 400 commodities are sold overseas.

The export ratio is said to be 27 times that of 1949. Farm output is however, 56 times the level of 36 years ago.

Official encouragement of private business also appears to have taken hold in Wuxi. One non-state enterprise is des-

cribed as the largest mushroom farm in China, with 80,000 sq ft under cultivation on land rented from the local government, and 580 employees.

Another is the Auspicious Corporation, a trader which groups several small private businesses.

Most private enterprises have to sell in the street off trucks and barrows—the produce market, already a tourist attraction, is typical of this. But permanent premises will have to be found soon for the more successful concerns. The state-run East is Red department store may even find private competition in the town centre.

Wuxi's real trump card, however, may be tourism. Some 30,000 foreign visitors passed through last year, many on Grand Canal boat trips.

The city says it is the largest attraction for Chinese on holiday, with as many as 11m

indigenous tourists last year. Seven hotels are under construction.

Economic growth has brought problems, however. The city now wants a more modest, sustainable increase of 8 to 10 per cent rather than the 18 per cent annual average for the last five years.

Over the 12 months to mid-year, output growth of 30 per cent was accompanied by an increase in power capacity of only 8 per cent. Local industry knows blackouts and rationing only too well.

There used to be no serious pollution problem—and by the standards of some Chinese cities Wuxi's are still minimal. The toughest task remains the fact that most local households are heated by coal. The goal is for 60 per cent of households to be converted to gas by 1990.

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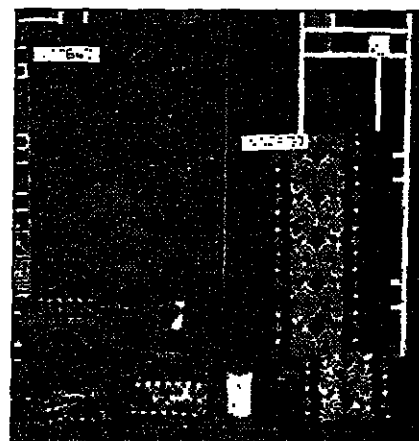
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Cable: "CHINATEX" Qingdao Telex: 32123 TEXQD CN

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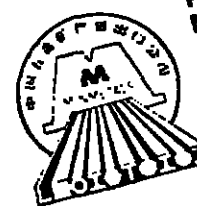
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中国轻工业品进出口总公司 China National Light Industrial Products Import & Export Corporation

Head Office: 82, Donganmen Street, Beijing, China
Cable : "INDUSTRY" Beijing Telex : 22282 LIGHT CN

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Our corporation also handles the import of paper pulp, paper and paper products, household electrical appliances, sound equipment, photocopiers and equipment for photocopy, watches and clocks, photographic supplies, sensitive materials, plate making equipment, cinematographic equipment, stationery and sporting goods, plastic products, building materials, interior decoration materials and others.

We have our Head Office in Beijing and 49 branch offices in various parts of China, engaging in actual business transactions. The China Hua Yuan Co. Ltd. is our general agency in Hong Kong, the Nam Kwong Trading Co. is our general agency in Macao. We have already set up representative offices in Tokyo, Hamburg and Casablanca.

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Our old and new friends from various circles are cordially invited to establish and develop business relations with us. Let's make new contribution to the expansion of our trade in light industrial products and to the further strengthening of friendship between the Chinese people and peoples throughout the world.



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Our Major Import Items:

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China 18

Nation rediscovers its heritage

Native Produce and Animal By-Products from Heilongjiang

Heilongjiang, a beautiful province of China with fertile lands, is abundant in non-staple produce, native produce and animal by-products. Available for export are almost 200 items, including:

Flax: long flax fibre, short flax fibre, flax yarn, flax waste, flax-cotton, flax sliver, etc.

Native produce and Forestal Products: wood (Shinku willow, larch, oak and birch), wooden products (chopsticks, ice-floppy sticks), candies and tonic glue.

Preserved Foods: honey, pumpkin seeds, black fungus, wild vegetables, salted wild mushrooms, various kinds of cold and mushrooms such as Yuhuang mushrooms, oyster mushrooms and dried fungus.

Feedstuffs: soyabean cakes, soyabean expellers, maize embryo meal, sun flower seeds cakes, soyabean cake expellers, flax seeds cakes, wheat bran and beet cakes.

Furs: fine furs (mink, colinky, laska, fish, squirrel, racoon dog, muskrat, fox) and fur products (jackets and overcoats).

Brushes and Combs: hog brushes, horse tail hair, cingings and fine hairs (colinky tail hair, horse hoof hair, goat tail hair, ox ear hair, racoon dog hair, budger hair, squirrel tail hair, etc.).

All of the above products are of top quality. Orders are welcome.

Person to contact: Zheng Jia Teng

China National Native Produce and Animal By-products I/E Corp. Heilongjiang Branch

55, Heping Road, Harbin, China
Phone: 52856, 52472
Cable: "HNAIEC" Harbin
Telex: 80088 HEITU CN

China's arts scene

MARIE MYERS-SCOUGH

CHAIRMAN MAO's wife, Jiang Qing's Eight Revolutionary Operas, acrobatics and the circus — China's bleak cultural offerings from 1966-76 — represent the 10-year moratorium on culture ironically termed the Cultural Revolution.

By comparison today the country is awash with arts events, both Chinese and foreign (in Beijing alone, purveyed through 130 museums and multi-purpose halls) as China enjoys its rediscovered heritage.

Some examples:
● ART: Artists are endeavouring to make up for the devastation of the Cultural Revolution: museums shut down, treasures destroyed; instead, ubiquitous pictures of fresh-faced Communist youth, red flags and factories, and portraits of Chairman Mao — and warped attitudes. Contemporary art is at an exciting stage: with the furor surrounding the Beijing Airport nude over, and less emphasis on socialist realism and aversion to abstract art. In current exhibitions (at least three in any week) the avant-garde is represented by a group of local artists (with their unit's approval) and America's Robert Rauschenberg.

Each year brings at least 40 exhibitions of foreign art — though mainly classical (the Louvre, Vienna Albertina collection, Berlin Museum). China's pride in its Third

World status ensures adequate representation by developing countries. Despite inherent prudery about the naked body, a recent advert for nude models at the Beijing and Shanghai Art academies drew over 1,000 applications.

● MUSIC: Since Seiji Ozawa conducted the first concert by the Beijing Philharmonic immediately following the opening up in 1978, the city's musical life has continued its remarkable recovery. Beijing, alone, has seven orchestras plus various ensembles, some of whom provide the excellent classical music entertainment in the new hotels. Apart from the conservatories in the major cities whose graduates are scooping up prizes at international music festivals abroad Beijing also possesses 40 music schools, 10,000 youngsters enrolled.

Piano ownership has jumped ten-fold from 2,000 in 1984 to 20,000 this year. Local musical life is enriched by visits of some well-known orchestras (Berlin, Boston, Philadelphia, BBC Symphony) and famous conductors. Traditional Chinese music, too, is well catered for.

Pop concerts

Pop music: despite the official worry about the decadence of Western pop music and the "spiritual pollution" campaign, pop — particularly Taiwanese or Hong Kong — thrives. Every self-respecting taxi driver has his cassette to hand, ready to assault the ears of foreigners expected to appreciate their own culture. Pop is relayed through loud-speakers in locations where only The East is Red blared out not many years back.

The acquisition of the latest



A scene from "WM" Wang Meng's controversial play that was closed down by the authorities

Japanese hi-fi is an undisputed objective of many technical exchange groups visiting abroad. Seeing the real thing, though, is still a pollutant risk — few foreign groups have been permitted since the opening up. The clamp-down after Wang's concert leading to the cancellation of Men-of-Work was probably connected with the behaviour of the over-exuberant audience — pop concert dancing seen as wild abandon. Discos are so approved, but only when run by one's unit.

● THEATRE: Five major theatre companies in Beijing — of which the People's Art Theatre is probably known abroad — regularly perform modern plays, usually in huge halls, affirmation of the Socialist call to cater to the masses. Arthur Miller's Chinese version of Death of a Salesman in 1983 brought in its train translations of other well-known Western playwrights.

Other foreign companies have followed London's Old Vic, the first to play in English (Hamlet in 1979). An interesting new generation of playwrights is gaining fame by writing from its own experience, and tackling previously taboo subjects or techniques and breaking away from prescribed Socialist formulas.

The avant-garde has made its debut with controversial productions. Bus Stop, a Beckett-inspired piece by Gao Xingjian and Lin Zhaoxia, depicts people waiting 10 years for a bus which never comes. It all but the waste of the Cultural Revolution. Wild Man by the same duo, is a multimedia piece about environmental issues and while reminiscent of the 1960s Western avant-garde, was an artistic breakthrough. However, the most recent provocative play was Wei Peigong's WM (women, meaning 'we'). This portrayed seven young men who return to Beijing embittered after their enforced years spent in the countryside during the Cultural Revolution.

New life-style

Apart from the overt criticisms of the System, the portrayal of their new urban life-style with drunkenness, lawlessness, divorce — even suicide — runs counter to all Socialist dramatic conventions.

Ying Roucheng, one of China's leading directors (known internationally) and actors (Willy Wonka in Dances with Wolves, Kublai Khan in Marco Polo series) man of the theatre and leading authority on the arts in China, says in effect the theatre has never had it so good. "We are enjoying a greater freedom than ever before. We can say and do a lot without being provocative."

"Free of previous shackles, in every theatre company young people are trying to do new things, playwrights writing about every corner of society, every part of history. I feel encouraged at the bright future."

● DANCE: After traditional Chinese dance, Western ballet, considered "safe," has a keen following. (Ballet in China owes its origin to white Russian emigrés, thus, a Russian influence prevails.) The Beijing Classical Ballet company recently had Nureyev along, drawing praise about their good physique as dancers.

Visiting Western companies included London's Royal and Festival Ballets, Danish Royal Ballet, the companies of Dresden, Stuttgart and Canada. Modern dance has not been neglected and Laban Workshops have been conducted by teachers from London. Among this year's visiting companies was Trisha Brown. But the highlight, Alvin Ailey created a sensation, "their thin, garbed bodies exuding more sensuality than we are used to," according to one fan. It also generated some latent entrepreneurial instincts in the thriving black market in tickets.

● OPERA: Traditional Chinese opera is back, though not yet playing to packed houses — the missing audiences attributed to suppression during the Cultural Revolution leaving an entire generation knowing nothing of the form.

A recent attempt in Beijing to liven up its image included laser beams, synthesizers, up-beat songs — and lots of dry ice. Western opera has its fans with visits by touring opera

companies and a recent home-produced Paghocci, by the Beijing Central Opera House directed by Italian maestro, Gino Bechi.

● FILM: This was the first target of the Cultural Revolution with Jiang Qing's purge on "Capitalist films" at the Shanghai Film Corporation. Later most films were labelled "poisonous weeds" and banned, leaving little, apart from the movie version of her Revolutionary operas.

It is said that Chinese news-reel crew risked their lives in January 1976 when they shot scenes of the national mourning for the death of Zhou Enlai. Today old movies are being re-made or re-edited for release. The medium is flowering with at least 20 major film studios and nearly as many co-productions with outside countries.

● TELEVISION: The magnetic effect of today's perfect picture quality has produced a boom in television ownership (despite the prohibitive cost, a year's wages). An indication of the demand is the 1m sets exported from Japan and trapped at Shanghai docks through transportation shortage.

The authorities' concern at the national addiction was voiced at a recent two-week national symposium. This covered such topics as plays (1,300 written in 1985) often low quality and the de-rumouring by making television serve Socialism and providing relaxation for people after a day's work. Indeed, one of the reasons for the decline in visiting businessmen's invitations to the opera etc., may be the Chinese host's wish to get home to the new television.

● LITERATURE: The Party's desire to control this art form causes headaches and confusing guidelines. After the wholesale burning of books in the Cultural Revolution when even Shakespeare was considered subversive, new books are now thronged and a vibrant publishing industry in 1984 printed 6.5bn books. The volume of translations of foreign authors has outstripped neighbouring Japan. It coincides with the establishment of courses in Comparative Literature at University and complemented by such events as the recent symposium of American and Chinese writers.

The Fourth Chinese Writers' Congress in January 1985 was regarded as a landmark for many reasons, including high attendance, frankness of views and open calls for greater literary freedom. A spate of new magazines — some of dubious quality — pushed up 1984 circulation to 4,000 titles.

However, there is another side to this rosy picture. State control over art and literature make working conditions difficult. Among other constraints writers endure the unfair royalty system (flat rate irrespective of sales) and copyright rules (defeating legal system). Worse, they are the most vulnerable victims of swings in political thought.

Double standards can apply where artists are denied freedoms granted to visiting foreigners. Painters complain about restrictions on selling their work. In April this year, the Minister of Culture, Zhu Mu's promise to actors, screenwriters and directors of greater freedom in their professional life, was undercut by the rider that: "the State would continue to play a leading ideological and political role in cultural affairs. Policies and plans would be worked out and regulations set forth for individuals and collectives... the principle of distribution according to work would be strictly carried out."

The Government attitude relating freedom in the arts to abuse and decadence is particularly illustrated by pop music. As a warning, China's leading pop singer, Zhang Xinxin, recently sentenced to 15 years imprisonment for "immoral behaviour" (two fans pregnant). Criticisms also centred on "his stage manner". Meanwhile his tapes continue to top the charts as cassettes circulating unchecked being one area of pop culture already beyond Party control.

The arts, then, in reality, are only as free as the Party allows. Official policy dictates that the arts should "offer choicest mental nourishment... advance Socialist modernisation, foster high moral

Cultural and political landmarks

- 1957 First Mao campaign against intellectuals
- 1966-76 Ten Years' Catastrophe: The Cultural Revolution
- Best-seller: Thoughts of Chairman Mao
- Popular operas: Taking Tiger Mountain by Strategy, Red Detachment of Women, and other works
- 1971 Lin Biao incident
- 1976 Death of Zhou Enlai; Tiananmen Square riots; death of Mao Zedong; overthrow of Gang of Four
- 1978 Beginning of recovery of arts and culture; Seiji Ozawa conducts Beijing Philharmonic Symphony Orchestra; Democracy Wall
- 1979 Deng Xiaoping's programme of change and Dissident Movement
- Late 1970s-early 1980s "Literature of the Wounded" (writers' personal accounts of Cultural Revolution)
- 1983 Arthur Miller directs "Death of a Salesman" by Beijing People's Art Theatre
- Deng's tightening up, ideological and cultural purge, "spiritual pollution" campaign
- 1984 National People's Congress, Prime Minister Zhao Ziyang reiterates continuation of policy of openness
- 1985 Fourth Writers' Congress calls for greater freedom; first major pop concert by Wham! Anxiety audience reaction sets the clock back. Men-at-work cancelled

and writers were the worst hit victims of the thuggish Red Guards' rampage across the country. Ranked among Mao's "stinking intellectuals" as worse than spies and feudal landlords, there were few who escaped. In a death toll difficult to estimate but likely in tens of thousands, they were persecuted, tortured, driven to suicide, killed. Others bore varying degrees of humiliating jobs, often in remote areas. Their works were destroyed. The brutal roughing-up (and broken limbs) of artists such as members of Beijing Opera Company is not untypical. Several playwrights including the famous Lao She (The Rickshaw Boy, Teahouse) were hounded to suicide. Outsiders cannot estimate the scale and enduring effects of the individual suffering. Zhao Zhongchun, vice-president of the Beijing Opera explains: "Many actors and actresses do not want to talk about the past, it is too sad. We want to look forward to the future—a bright one."

Optimism

Thus, artists will go along with the alternating optimism and pessimism because they do not want to precipitate any return to those dark days. Compared to eight years ago everyone concedes the freedom of the 1980s. It has been gained at a great price. The consensus among artists is that it would be foolhardy to risk losing it. While censorship still exists in all areas of the arts, none, the mood is not of despondency. Artists and writers are realistic. As one writer says: "People want progress and reform and do not want to upset the apparatus. We have more freedom than when I first started my career in the 1940s. The best way to interpret China is to think of us trying to combine the Renaissance, Reformation and Industrial Revolution all into one decade. The political restrictions our writers have are not so different from those of Shakespeare or Moliere."

As China, the great giant, stirs, leaving behind its turbulent past, and cautiously eases its way forward, tensions and insecurity seem inevitable. What the nation aspires to—and the means by which it seeks to attain it—cannot but pose interesting fundamental questions and challenge some of our Western assumptions. Ying Roucheng's description of his country as "emerging from its Elizabethan era political straitjacket" has just been dramatically illustrated. The highly acclaimed play, WM, was suddenly closed down by the Beijing authorities with-out warning—"Revolution is not a dinner party."

YOUTH Brand Ice Skates



Inquiries and orders are most welcome.

Person to contact: Mr. Wang Qiu
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Harbin, China
Cable: "INDUSTRY" or 6110
Tel: 56931

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Sichuan Branch of China National Machinery I/E Corp. has been dealing in Hand Tools for years and has gained a high reputation in the market. We handle more than 170 kinds of hand tools, including pliers, hammers, spanners, plumbing tools, grinding tools and plastering tools.

Our products are available in wide variety and full specifications, of top quality and reasonably priced. We can guarantee prompt delivery. We constantly improve our products and add new items to meet demands of the market and special requirements of our clients. All these are reasons why Sichuan Tools are well received by buyers both at home and abroad.

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Cereals, Oils and Foodstuffs from Heilongjiang

Heilongjiang Branch of the China National Cereals, Oils & Foodstuffs Import and Export Corporation handles about 200 export commodities, including:

- *Cereals: Heilongjiang soyabeans, kidney beans and other beans and cereals.
- *Oilseeds: castor seed, sunflower seed, hemp seed and perilla seed.
- *Oils: Sunflower oil, maize embryo oil and others.
- *Feeds: soyabean meal, broken soyabean cakes, wheat bran and beet pulp pellets.
- *Hong Mei Brand Canned Food: pork, beef and mutton; red kidney beans in brine, beans in tomato sauce, tomato paste and other vegetables.
- *Wild Vegetables: salted bracken and dried osmund.
- *Meat: frozen boneless beef parts, boneless mutton, mutton with bone, horse meat, rabbit, duck, geese and broilers and live cattle.
- *Wild Game: frozen pheasants, hazel grouse, rice birds, deer meat, roe deer meat and wild boar meat.
- *Hong Mei Brand Confections: royal jelly drops, black currant candies, rock candies, milk candies, toffees and peppermints.
- *Hong Mei Brand Wines: wild grape wine, Chinese port wine and Chinese Yuchuan Chiew.
- *Hong Mei Brand Milk Products: whole milk powder and sweetened condensed milk.
- *Beancurd Products: dried sheets, dried sticks and red fermented beancurd.

Business inquiries from all over the world are welcome.



Person to contact: Mr. Li Donglai

China National Cereals, Oils & Foodstuffs Import & Export Corporation, Heilongjiang Branch

Address: Foreign Trade Building, 73 Zhongshan Road, Harbin, China
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Heilongjiang Linen Garments are made of selected natural fabrics of top quality. Characterized by fine craftsmanship, elegant colours and excellent styles, they are also very comfortable to wear.

We can also manufacture to customers' samples. Enquiries and orders are most welcome.

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Telex: 87008 CHT CH



China 19



City families in modern China: left, toddlers play with their father in central Shanghai, while right, a mother and child enjoy the sunshine in a Peking park

7,500-mile journey of discovery

Solo travel in China

ALLAN ELLIS

FOR THE independent traveller who eschews the package-tour cocoon, China offers a middle way, in cost and facility terms.

I travelled 7,500 miles across 12 of the "Eighteen Provinces," the traditional Han Chinese heartland south of the Great Wall, through the three north-eastern provinces, once

Manchuria and through Inner Mongolia. I also went to the great self-governing municipalities of Peking, Tianjin and Shanghai.

The tourism infrastructure though rudimentary in parts, is none the less adequate. Booking tickets for trains, aeroplanes, ships and buses is not as difficult as some claim, particularly if you personally make the bookings. To cope with tourism growth, China is building hotels.

My average expenses were £15 a day. Of this, £10 was for accommodation and the balance for food and fares.

I was lucky to secure hotel rooms, inexpensive, in Peking, Tianjin and Shanghai, a dormitory bed, most inexpensive, in Xi'an, and comparatively expensive rooms in Nanjing and Guangzhou (Canton), for those, with Guilin, are tourism hot-spots to be treated warily in the high season (May, August, September and October, this last being the month for the highest volume of visitors).

I sweated a little to find hotels at Dalian and Suzhou. Elsewhere, however, in the rest of the total 28 centres at which I stayed, I had no serious problem finding a room.

Accommodation

Broadly speaking, accommodation is offered in three tiers though terminology and substance often interchange:

● In some cities, hotels (jaguan) of Western style and standards exist on a scale from modest Friendship Hotels to luxury giants, part foreign-owned and operated. A double room here can cost per night from £10 to £12, for example at Qingdao's 1979-built Huiguan on China's reputedly finest beach, Luyang's especially friendly Friendship Hotel, and Shanghai's YMCA, which is being renovated, to £40 at the White Swan, Guangzhou, and £33 at Shanghai's Peace Hotel.

● In many towns the principal accommodation is the town guest-house (binguan). These are often old hotels, sometimes relics of a bygone age, sometimes aimed initially at Overseas Chinese and accordingly known as the Hua Qiao or Overseas Chinese hotels. Or they may be newer premises aimed at tourists from abroad. Doubles here cost about £10 a night.

The Hua Qiao at Ningbo, fondly remembered for its friendliness and cuisine, is typical. A handsome relic is Shenyang's Liaoning Guest-house built in 1927 by the Japanese and loaded still with art deco and chrysanthemum motifs.

Some jaguan and binguan

offer mixed-sex dormitory accommodation at about £3 a night.

● Still other binguan, aimed at domestic travellers, admit foreigners and cost as little as £2 a night for a bed in a double, but some are not always comfortable here.

As a general guide, book tickets on trains, aeroplanes, buses, and waterborne craft directly yourself though if you cannot face the scrum, China International Travel Service offices will book for you. Book ahead as far as possible in time.

To meet the people, travel by hard-seat on the trains. Hard-seat and hard-sleeper are no ordeal.

Travelling companions on realistic journeys to the end of the night reveal much about life in China.

Travel by train, in terms of seat availability and booking procedures, is not as difficult as some suggest but you will need patience. There is pressure on some routes and there can be problems booking tickets until you get the hang of it.

Ask your hotel reception-desk for the appropriate train time and train number. Write these in roman script on paper.

At the station, tell a police officer or traveller your destination and travelling day (jinian today, mingtian tomorrow) and indicate your wish that the appropriate booking - office ticket-window be pointed out to you.

Join the queue and on eventual arrival at the window proffer your train-time paper, cash, and passport (clerks checked my visa validity before issuing tickets on a half-dozen occasions).

Occasionally police officers offer to buy your ticket on your behalf or, abduct you to the head of the queue.

You will receive a ticket and a seat-reservation slip. As a foreigner, you will probably have to pay a travel surcharge.

Foreigners must pay hotel, air and train charges (but not bus or waterborne charges) in Foreign Exchange Certificates (FECs), not in general circulation renminbi.

Fares over huge distances are cheap compared with the West, even when one adds in the premium charged to foreigners. My longest rail trip was 870 miles, took a day and cost £11 hard-sleeper. A week's cruise up the Yangtze from Nanjing to Chongqing cost £38 excluding food.

This autumn new visa rules were introduced. Current arrangements should be checked with the China National Tourist Office, which issues an information circular.

Visitors and tourists to China

(including Overseas Chinese and compatriots from Hong Kong and Macau)

1978	1.8m
1984	12.9m*
1985	18.0m*

* Expected. First half, 8.97m arrivals, a 58.5 per cent rise on the corresponding period of 1984.

CHINA'S TOURISM MARKET (1984)

Japan	368,000
US	212,300
Australia	72,600
UK	62,100
West Germany	34,200
Canada	30,300
France	27,000
Switzerland	16,000
Italy	15,900

UK TOURISTS TO CHINA

Year	Total arrivals from UK	Package tourists
1979	16,289	3,420
1980	28,649	4,221
1981	41,754	6,172
1982	42,000	14,611
1983	50,000	9,522
1984	62,100	11,222

AFTER LIBERATION, China admitted only business and sponsored travellers. In 1974 specialist tour packages were introduced, when one could travel in China on £1 a day.

In 1978 Deng Xiao-ping launched his "open" policy. A year later package tourists started to enter and the Trans-Siberian Railway route into China was opened to them.

In 1981 China began issuing tourist visas to independent travellers, at Hong Kong and through its embassies.

Mr L. Y. Yang, director, China National Tourist Office, London, says China's total foreign currency earnings from tourism in the seven years 1978-84 were \$584 (£2.6bn). Growth is indicated on the above tables.

With a tourist visa one may visit 100 cities without further formalities but to travel elsewhere in China one needs a Travel Permit from the Public Security Bureau, the police, obtainable, after arrival in China.

Essentially I had no problems of mobility and found myself as free as a bird. Once inside China I was issued with a tourist visa and with extensions without problems.

● Travel Notes: An invaluable book is China-A Travel Survival Kit by Alan Samagalski and Michael Buckley (Lonely Planet, 1984, £9.95). The Berlitz Chinese for Travellers, is useful (£2.45).

China National Tourist Office, 4 Glenworth Street, London NW1 (near Baker Street Underground Station), tel 01-935 9427.

Chinese Embassy Visa Section, 13 Weymouth Mews, London W1N 3FQ, tel 01-580 2268.

Do not drink unboiled water. For train travel buy a packet of tea and a sealed drinking-jar (80 fen). Rail staff provide boiling water. Some Chinese passengers insist on proffering their own jars to foreign guests. Take a universal plug.

London-Peking flights at £250 are available on Aeroflot. Hong Kong travel agents offer discounted Hong Kong-London flights on Third World scheduled airlines at £240.

In Hong Kong, adequate accommodation is available at apartments in Chungking Mansions, at the lower end of Nathan Road, Kowloon, at about £10 a night. When changing money in Hong Kong use banks - or money-changers who do not charge a commission.

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China Textile Garment's Accessories I/E Corp.
deals in linings (including man-made fur), paddings, sewing threads, embroidery threads, straps, laces, elastics, labels, zippers and buttons.

China Export Garment's Research Centre
promotes technical exchange and further development of China's garment export. It offers a wide range of services including fashion design, trade information and marketing consultation. It also imports garments for design research and deals in the export and domestic trade of fabrics and clothing accessories. The centre is also active in other businesses such as joint ventures with foreign partners and cooperative enterprises.

China Fashion Magazine Press
publishes "Fashion" magazine (in Chinese) and "China Fashion" magazine (in English). They provide the latest information on the fashion world, introduce new fashion designs and new garment products. The Press also offers consultation services, organizes fashion design competitions and fashion shows. Both publications accept advertising.

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Tips for overseas visitors

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Business Travel
in China

DAVID DODWELL

ONE BRITISH executive arrived recently at the airport in Hefei, the provincial capital of Anhui, after two days of work in the inland city. He was intending to take an evening flight to Shanghai for another day's work before travelling on to Hong Kong and Singapore.

News in the next few minutes left his carefully planned Asian travel programme in tatters. The CAAC aircraft due to fly in from Peking to take him to Shanghai had not yet arrived from Shanghai on its way to Peking. The best he could expect was a flight the next afternoon—if that was cancelled, as was possible, then there was no further flight to Shanghai for three days.

He was unable to get to his meetings in Shanghai—and had no speedy way of telephoning ahead to inform colleagues. His onward connections through Hong Kong to Singapore were in jeopardy. His air ticket was looking less than useless, and important meetings elsewhere in Asia would have to be rearranged at best, and might be lost at worst.

Rather than remain at the mercy of CAAC, China's notoriously unreliable national airline, he set about disaster management. He bought a ticket for the following morning's 10-hour train journey to Shanghai—slower than the plane journey, maybe, but at least reliable. His Shanghai meetings could not be rescued anyway, and at least he would be in Shanghai in time to catch onward connections.

One of the main problems for overseas business visitors is how best to keep to their itineraries. There can be no guarantee against the problems that arise, but here are some tips worth remembering:

● Travel into and out of China:

Use an international carrier if possible. A number of European carriers fly direct to Peking. Japan Airlines, Northwest Orient and Cathay Pacific fly direct to Shanghai. These tend to leave and arrive on time. Return bookings can be

arranged in advance outside China.

● In China's interior: Only CAAC operates services at present, though a number of Hong Kong-based carriers are currently applying for licences to operate services to about 18 inland cities.

When travelling from Hong Kong into the interior rather than to Shanghai, Tianjin or Peking, it is usually necessary to fly via Canton. This can involve headaches because making onward reservations from Canton is often not possible until you have physically arrived in Canton. Similarly, making return reservations is impossible unless done in Hong Kong.

It is worth noting therefore that apart from CAAC's scheduled services, it operates a large number of direct charter flights between Hong Kong and cities in the interior. These are intended primarily for foreign tour groups or Hong Kong residents visiting rela-

existent, so it is preferable to remain in the comparative comfort of your hotel until you are absolutely certain that a plane is arriving at a particular time. It is worth noting that most inland services are shuttles operating like that from Shanghai to Hefei and Peking, which should return on the same day via Hefei to Shanghai. It is therefore possible to get advanced warning of delay by asking about progress on other stages of the shuttle.

Advisors or hotel staff to phone the airport to ask about departure times: there is always a special number, but interrogation will invariably have to take place in Chinese.

● Poor weather and peak travel

Advisors for five months every year, thick fogs shroud the city of Chongqing, over half of the scheduled flights into the city are cancelled during that time. The same problem occurs in a large number of Chinese cities, and is aggravated by the fact that few airports have radar

will either start or finish in Hong Kong, so flights direct to the British territory are often full. If this is the case, then fly instead to Canton. From there, onward travel to Hong Kong is increasingly easy: several trains leave every day and take three hours; hydrofoils leave every afternoon at around 2.00 pm and also take about three hours; taxi drivers either at the airport or at the hotels will also drive you to the Hong Kong border crossing in three hours. From there, the transfers on to Hong Kong's Kowloon Canton railway is simple.

For foreign passport holders, customs close at 7.30 pm in the evening, so road departure from Canton after 4.00 pm is rash.

Many flights arrive in Canton late in the afternoon, in which case a marvellous way to get back to Hong Kong on time when all else seems to have failed is on the overnight Pearl River cruise. This leaves around 9 pm, and arrives in Hong Kong before 6 am.

● Travel by train, road or boat: wherever possible from the above, it should be clear that air travel is fraught with aggravation in China. If the slower pace can be accommodated, and the distances to be covered are not too great, then trains and ferries are punctual, comfortable (in soft class) and often fascinating.

Coastal ferries ply regularly between all of the open coastal cities. Note that on both trains and ferries, it will probably be necessary to share a cabin. Chinese people do not share with westerners a highly refined sense of privacy. Unlike aircraft, trains and ferries really do leave on the dot, so arriving late is rash.

● Sponsoring organisations: as a business visitor, you will almost certainly have a sponsoring organisation. Apart from acting as hosts, they are invaluable for helping to unravel the bureaucratic and other tangles. They are particularly helpful confirming or rearranging onward bookings. They know the system, have clout within it, and so are well placed to pull strings when they need to be pulled. Without them working as local "fixers" many of the day-to-day bureaucratic problems linked with high-speed travel can become unduly time-consuming.

● Onward communication:

telephones are rare outside China's three main cities, and

hotels will often have just one telephone line.

International calls will have to be booked long in advance, and may involve long waits in your hotel. Hotels often charge for telephone calls and telegrams, and surcharges are substantial. Calls to Hong Kong are cheaper and quicker, so it can be helpful to ask colleagues there to pass messages on to head office.

● Meal times and running water: Important to find out when hotels stop serving meals. Often it is remarkably early. Many hotels in the interior may have running water for an hour or two morning and evening. Using the contents of a thermos flask to wash off the day's sweat may be the only solution if you fail to discover when water will be running.

● Carry cash: Very few cities in China can cope with plastic money, so it is important to calculate generously before going into the country how much cash you will need. Outside main cities, hotels offer no foreign exchange service, and Bank of China branches are often difficult to find.

Locals often confuse the People's Bank with the Bank of China, so it is important to emphasise the distinction. Few locals use the Bank of China, which is exclusively a foreign exchange bank, so do not be surprised if they do not know where it is. It will almost certainly not be a high street branch.

Always assume that getting cash will take time, and that much time can be saved if your sponsoring organisation can do the legwork for you.

● Visa expiry: Ensure your sponsoring organisation arranges visa clearance well beyond your planned departure from China.

● If you are ill: Medical treatment in China furnishes some of the most vivid horror stories going. The best advice is to be more than usually careful not to get ill—avoiding suspect foods, water, ice. If you are unwell, try to get out of Hong Kong if it is in any way possible.

For minor ailments, take Lomotil in case of diarrhoea; aspirin or an equivalent in case of a fever; mosquito repellent; a broad spectrum anti-fungal cream; sterile eye drops and disinfectant.

Arranging a travel itinerary—and sticking to it—is one of the major headaches for any overseas business executive visiting mainland China. There are no fail-safe solutions.

A business itinerary that includes such cities is almost certainly doomed to serious delay, which must be allowed for. Make sure it is essential to include the city in the itinerary, and try to visit it when the odds on disruption are lowest. Trains would obviously be slower, but introduce an invaluable element of reliability.

During the peak tourist season from late September into November, all flights around China are congested with tour groups, and hotels are full. Booking well in advance is essential. Even then, most hotels function to cater for tour groups, and business executives travelling alone will find themselves pushed into box rooms.

If a plan is cancelled and you have to remain overnight in a city, CAAC makes no arrangements for hotel accommodation, so this may require prompt action if a room is to be rescued.

● Your schedule: leave a number of days at the end of itinerary allowing for delays. If you are running on time, you can lose time without missing onward international connections.

● Business itineraries: Most

The high cost of business offices

AFTER surveying the Chinese office and home rental landscape, a West German businessman, who is moving to Peking to improve his country's penetration of the China market, had a short and sharp assessment: "It is ridiculous."

The businessman has found that he is captive in a seller's market, instead of being the bargain basement that many foreigners expect, the Chinese capital is one of the most expensive places in the world to do business.

New China hands will be lucky to find any accommodation other than a hotel room. The first block of 72 apartments for foreign business people opened here two months ago, and, despite an annual rent of US\$72,000 (plus \$400 a month in management fees), the three-bedroom apartments have been over-subscribed.

Until this year, foreign business people had no choice but to live in and work out of hotel rooms, and found themselves subject to arbitrary price rises. The Peking Hotel, long a home for foreigners, has lifted its room charges on 15 occasions in the past four years.

In the middle of the year, the city celebrated the opening of its first genuine office block, the 31-storey Citic (China International Trust and Investment Corporation) complex, where businesses pay high-rise rents for the privilege of their position in Peking's tallest building.

Top prices The Citic complex was also subscribed, though it, too, is charging top dollar prices. A square metre of office space is selling the tenants back at least US\$1.18 per day, while apartment space rent is about \$1.29 per square metre.

The expense has given business people moving into the complex a licence to complain. They tell of companies having bought furnishings to match the green carpets that were to be laid throughout the building. Then those companies discovered that their office was not to have green carpets after all. They also tell of the partitions that were going to be selling high for privacy's sake. That was until local fire authorities inspected the building, and ruled that ceiling-high parti-

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HEBEI TEXTILES

Hebei Province situated in the North China Plain is among the most important cotton growing areas in China. With its highly developed textile industry, Hebei is also one of China's seven largest textile bases.

Hebei's textile industry has a solid foundation. There are about 260,000 textile workers and over 300 textile enterprises. Hebei has 1,430,000 spindles for cotton yarn, more than 40,000 looms and 29,000 spindles for woolen yarn. Hebei is now producing 560 million meters of printed and dyed fabrics and 16,000 tons of chemical fibres annually.

Major export items include:

Cotton, pure cotton yarn, T/C yarn, spun rayon blended yarn, acrylic bulk yarn, pure cotton fabrics (shirtings, poplin, khaki, serge, batheas, velveteen, corduroy, flannel, denim, canvas and resinated interlining), chemical fabrics

(trueran, cambrics, polyester/spun rayon, cotton/polynosic blended fabrics, checked spun rayon fabrics, checked furniture cloth, acrylic curtain cloth, resinated interlining), silks (raw silk, silk fabrics), embroidered garments, silk garments and others.

These products are all exported by Hebei Branch of China National Textiles I/E Corp. They are marketed to many countries and regions including Hong Kong, Macao, Southeast Asia, Japan, the U.S.A., Canada, Europe and the Middle East, and have gained a high reputation in these markets.

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